



ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION
(Affiliated to All India Bank Pensioners & Retirees Confederation – AIBPARC)

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Dear Comrades,

4th April , 2019

News of Interest 4th APR

QUOTE OF THE DAY

“EACH DAY PROVIDES ITS OWN GIFTS.” —MARCUS AURELIUS

HIGHLIGHTS

1. GOVT IN DAMAGE CONTROL MODE AFTER SC VERDICT, SEC 35 MAY BE INVOKED
2. SC ORDER ON RBI CIRCULAR: MORE OPTIONS FOR BANKS TO TACKLE DEFAULTING FIRMS
3. PAYTM PAYMENT BANK EXPECTS 10 CRORE SAVINGS ACCOUNT IN CURRENT YEAR; OPENS BRANCH IN DELHI
4. IL&FS FINANCIAL SERVICES GNPA TOUCHES 90% IN DECEMBER 2018 QUARTER
5. SBI SETS OPERATING PROFIT TARGET OF RS.70,000 CRORE FOR FY20
6. HEALTH COVER POLICYHOLDERS MAY SOON BE ABLE TO RECEIVE CLAIM AMOUNT IN INSTALMENTS

Business Standard

1. Govt in damage control mode after SC verdict, Sec 35 may be invoked

Section 35AA empowers the central government to authorise the RBI "for issuing directions to banking companies to initiate insolvency resolution process"

Shrimi Choudhary & Anup Roy |

Bruised by the Supreme Court's verdict on the Reserve Bank of India's (RBI's) February 12, 2018, circular on resolving bad debt, the government is planning to authorise the central bank to refer companies to the Insolvency and Bankruptcy Code (IBC) on a case-by-case basis.

"We will not let the IBC process weaken. The Supreme Court verdict does not curtail the government's powers to give directions to the RBI to initiate recovery proceedings. The government will invoke Section 35AA of the Banking Regulation Act to soften the Supreme Court verdict on the February 12 circular," said a senior finance ministry official.

This will be within the rules set under the Banking Regulation Act and would be hard to challenge in court. Section 35AA empowers the central government to authorise the RBI "for issuing directions to banking companies to initiate insolvency resolution process".

If the government wants, this can be done on a retrospective basis, too, said experts, but that could be challenged by companies again. The best way, according to experts, would be to let it be on a prospective basis because defaults would likely recur anyway after some time. The Supreme Court ruling by Justice Rohinton Fali Nariman and Justice Vineet Saran largely centred on the fact that the RBI should have sought authorisation from the government before sending companies to the bankruptcy code on a case-by-case basis, as laid down under Section 35AA.

However, a circular such as February 12 nets a whole bunch of companies that meet the cut-off set by the central bank, in this case Rs 2,000 crore of outstanding debt for each account.

The central bank had said if the account servicing had been delayed even by a day, it would be in default and a resolution process had to be drawn by the banks and if need be, referred to the National Company Law Tribunal (NCLT) under the IBC.

"Without authorisation of the central government, obviously, no such directions can be issued," the Bench observed.

The government is ready to walk the extra mile and wouldn't mind authorising the central bank on each case. Sources said the RBI in consultation with the government might issue fresh guidelines on NPA resolution.

"It will be case-by-case basis. NCLT cases caused by the February 12 circular will have to be seen in the light of new development. But there will be no impact on cases which are out of the ambit of the said circular," said an official. He also said in the absence of the February 12 circular, the RBI might have to bring back old schemes such as the Scheme for Sustainable Structuring of Stressed Assets (S4A). But the success rate of these schemes has been very low, forcing the central bank to bring the February 12 circular.

Banks had invoked strategic debt restructuring (SDR) in more than 140 cases, but were unable to change ownership even in a handful of cases. In the case of Corporate Debt Restructuring (CDR), of the 591 cases, only 110 succeeded, while 291 cases failed. In 22 cases, handled under different scheme, 20 borrowers were still in default, according to the latest data. Unless the government supports the RBI on a case-by-case basis, bad debt resolution will be back to square one.

"The apex court's ruling now puts the onus back on banks for ensuring timely and effective resolution of stressed assets," said rating agency Crisil in a report.

The SC verdict allows rationalisation of the Bankruptcy Code, said Bank of America Merrill Lynch.

“What now? We expect the ministry of finance to form a much-needed public sector asset reconstruction/management company to manage banks' non-performing assets either directly or by bidding at NCLT auctions. Second, there will likely be a greater push to pre-NCLT resolution structures, recommended by the Sunil Mehta committee, as well as sector-specific measures,” said Bank of America.

Clearing the air

What is Sec 35AA of BR act?

It empowers the Centre to authorise the RBI to issue directions to banking companies to initiate insolvency resolution process in respect of a default under provisions of the IBC

Way forward

- SC order does not limit govt powers to give directives to the central bank
- The order will not let IBC process get weak
- RBI to issue directions on NPA resolution
- Restructuring schemes such as S4A being discussed
- Govt may ask RBI to implement the court order on a case-by-case basis
- No impact on cases that are not under ambit of RBI's Feb 12 circular

2. SC order on RBI circular: More options for banks to tackle defaulting firms

Lenders also have the option of restructuring the loans

Surajeet Das Gupta

Lenders to companies which are under stress could now have three options to deal with them if they default on loans: take a haircut as part of a one-time settlement, restructure the loans for a longer tenure as they did when corporate debt restructuring schemes were allowed, or go to the Insolvency and Bankruptcy Code (IBC) for redress.

These changes in the options available to lenders come, according to PE funds and bank lawyers who are involved in the IBC process, in the wake of the Supreme Court on Tuesday setting aside the 12 February RBI circular, which allowed a 180-day window to banks to resolve a company default.

But they can still find a resolution. According to a Reserve Bank of India circular, a loan becomes a non-performing asset when banks cannot find a way of recovering their money in 90 days. In short, banks still have a window to resolve the default.

Lenders can take a haircut as part of a one-time settlement of dues though experts say that, considering the overall environment, it is unlikely that any bank will opt for this course of action.

“Such an option could be scrutinised and investigated, especially under existing circumstances where banks have been under the scanner for giving loans without a proper risk assessment,” said a top executive of a private equity fund.

Lenders also have the option of restructuring the loans. "For instance, they can convert a 10-year loan tenure to 20 years and tweak interest rates lower.

But they might still not recover the loan has had been the case in many CDR schemes which did not work. However, there would be cause for concern if lots of banks were to use this route in lots of cases," said a banking expert.

He pointed out that the government will be keeping a close watch for a greater use of these two options as it could derail the whole IBC process and put off potential investors.

There are others, however, who say that there will hardly be any incentive for a bank to do this because, under the RBI rules, the loan will remain a non-performing asset (NPA) on the books of the bank until 20 per cent of the principal is paid off by the company - only then could it be designated as a non-NPA.

The third option open to lenders dealing with defaulting companies is referring them to the IBC if a resolution cannot be found. "While under the earlier RBI circular, banks had 180 days to resolve the default issue, they now have 90 days to do so. But earlier, they had no option but to go to IBC, Now they have three options — a one-time settlement, restructuring of loans and also the IBC," said a PE fund executive.

What lenders can do

- Take a haircut as part of a one-time settlement
- Restructuring the loans
- Refer defaulting companies to the IBC if a resolution cannot be found

Financial Express

3. Paytm Payment bank expects 10 crore savings account in current year; opens branch in Delhi

By: [Prachi Gupta](#)

Paytm does not intend to open many branches. "If we open branches further it will be in single digit, nationally in the next two or three years. We will never get it to the double-digit," Satish Gupta told Financial Express Online.

With 4.4 crore accounts associated with Paytm Payment bank, the company looks to more than double the savings accounts this year as it launched its first branch in Delhi on Wednesday. Second in line after the company's Noida headquarter, the branch will cater to customer services and will establish Paytm's presence with the customers, CEO and MD Satish Kumar Gupta told Financial Express Online.

"The branch will also provide a range of services related to PPBL savings account, current accounts and wallet such as statement issuance, instant debit card issuance, KYC completion, and more," Paytm bank said in a release. Also, cash deposit for Paytm bank users and cash withdrawing for all banks will be made available in the branch, it added.

However, Paytm does not intend to open many branches. "If we open branches further it will be in single digit, nationally in the next two or three

years. We will never get it to the double-digit," Satish Gupta told Financial Express Online.

Talking about the constraints that the company faces, Satish Kumar also said that Paytm faces competition from other banks as customer acquisition is an art. "We cannot offer full-time services if a customer wants to bank with us. But we are doing well. We are larger than many large banks," he added.

He also said that the user-friendliness and the security that Paytm provides is a reason that it is popular with the consumers. Paytm bank provides zero-cost services to customers irrespective of the number of transactions, he added.

While Paytm was slated to open 31 branches in the first year of its inception, the company is lagging behind. Addressing that, Satish Gupta said that Paytm believes in 'do-yourself' approach which does not require a physical branch. "We just opened to gain the experience. We will see our experience from this and will decide to open more. Because ours is a model in which the customers can themselves do the work," he said.

Economic Times

4. IL&FS Financial Services GNPA touches 90% in December 2018 quarter

Even as recovery ability of the loans is posing challenges, the company would take care of creditors by resolving assets within India, the board added

PTI

Government appointed board of cash strapped IL&FS Wednesday said the gross non performing loan of it's lending arm IL&FS Financial Services (IFIN) has touched unprecedented level of 90 percent in the December, 2018 quarter.

The board led by veteran banker Uday Kotak said that IFIN had reported a gross NPA of 61.8 percent and 5.3 percent in the quarter ended September 2018 and March 2018, respectively.

"The company which reported a GNPA of 5 percent in March 2018. I have heard double digits NPAs but 90 percent GNPA is very unusual by any standards. That's the challenge that we have faced," Kotak, who is the chairman told reporters.

In recent past the highest NPA reported in the banking sector was around 27.9 percent by IDBI Bank.

He said the total recovery for IFIN between October 2018 to March 2019 stood at Rs 931 crore.

IFIN's lending to external entities stood at Rs 10,656 crore as of March 31, 2019 while to the IL&FS group was Rs 6,849 crore.

The company said there is an active recovery actions on external lending portfolio of IFIN.

The board Wednesday appointed Vineet Nayyar, who was executive chairman and managing director, as executive chairman.

It also re designated CS Rajan as the managing director of IL&FS.

Kotak said the net worth of IL&FS Group was Rs 9,000 crore as of March 2018.

"It is reasonable to assume that there is significant erosion to net worth of the company," Kotak said.

The company's fund based outstanding debt was Rs 94,216 crore as of October 8, 2018.

IL&FS chief operating officer N Sivaraman said besides the large outstanding debt, the other challenges faced by the company includes high debt to equity ratio of 10:1, huge asset-liability mismatch and poor recovery of loans.

He said total IL&FS Group companies stands at 302 after adjusting for closure of 45 entities.

The company said it has already launched asset monetisation process in 55 group businesses including securities business, renewable energy, domestic road vertical, alternate investment fund management, education and thermal.

It is in discussion to launch asset monetisation process for OTPC, Paradip Refinery Water, ILFS Tech, LARES Philippines, ILFS Evt and Mangalore SEZ, among others.

Kotak further said the position of the new board is to see how it recovers money for the interest of the stake holders including the creditors.

"I think we will be able to achieve this (resolution process) in an accelerated manner in an environment of comfort with each other's trust, we are not trying to hoodwink anybody.

"We also know that whatever comes will not go to the shareholders but to the creditors sitting on the other side. There is a good discussion that is happening and we are expecting a fairly reasonably faster and fair outcome of this," Kotak said.

Business Line

5. SBI sets operating profit target of Rs.70,000 crore for FY20

[K Ram Kumar](#)

The bank had posted a lower operating profit of Rs.38,503 cr in the first nine months of FY19.

Rajnish Kumar, Chairman, State Bank of India, has exhorted his bank's 2.60-lakh-odd employees to roll up their sleeves to deliver an operating profit of about Rs.70,000 crore in FY2020.

In view of the volatility caused by one-off income, India's largest bank intends to focus on operating profit in general, and, in particular, operating profit from core operations.

SBI clocked a lower standalone operating profit of Rs.38,503 crore in the first nine months of FY2019, against Rs.43,628 crore in the year-ago period.

Referring to the operating profit earned by the bank in the last two years, Kumar, in a communication to the bank's staff, said some part of this has been contributed by one-time items such as disinvestment/initial public offer of SBI Life, and sale of non-core assets/strategic disinvestment, among others. But growth in operating profit from core banking operations has been slightly lower.

Exceptional items

The SBI chief underscored that one-time items, or exceptional items, tend to distort the comparison of the profitability trend, where profit should be a function of the core operating performance, rather than from exceptional items.

The bank wants to target a higher core operating profit to take care of unexpected exigencies resulting in higher provisioning.

Further, a robust operating profit will also lead to improvement in efficiency parameters, such as return on assets, return on equity, cost to income ratio, and net interest margin, among others.

Among profitability parameters, the bank is eyeing return on assets (net profit/ average total assets) of 0.70 per cent for FY2020 (against 0.001 per cent for the nine months of FY2019); bringing down the cost to income ratio (non-interest expenses/net total income) to less than 50 per cent (against 56.97 per cent as on December-end 2018); and optimisation of net interest income (by focussing on increasing current account deposits and considering increase in interest charged to borrowers, especially those enjoying below-card rates).

Each of the bank's five business units – national banking group, corporate accounts group, commercial clients' group, global markets unit, and international banking group – is expected to achieve the business targets, which will flow from the targeted operating profit.

6. Health cover policyholders may soon be able to receive claim amount in instalments

[G Naga Sridhar](#)

You may soon be able to opt for receiving personal accident and benefit-based health cover policy claims in instalments.

In a first-of-its-kind proposal, a working group constituted by the Insurance Regulatory and Development Authority of India (IRDAI), has suggested that a policyholder may be provided the option to receive the amount in lump sum or in equated instalments.

Not a default mode

However, this will not be a default mode, but should be implemented only if a customer opts for it. "A policyholder shall have the flexibility to choose the option of settlement option of the claims at all stages of the policy contract – at the time of buying the policy, during renewal, and during the policy terms or at the time of claims," the committee said in its recommendations. The periodicity of instalments could be monthly, quarterly, bi-annual, and annual. The claim payment period could be up to a maximum of five years, and instalments should be spread over the payment period.

On the pricing front, the panel suggested that the premium should be the same for both options of lump sum settlement of claim as well as instalments. Linkage of interest rate for payment of claims in instalments will not be permitted. "Pricing aspects should be incorporated by the appointed actuary at the final stage while deciding the terms and conditions to be offered to the policyholders," the report said. The regulator is likely to come up with the final guidelines on the matter over the next one month, according to sources.

The objective of such a facility is to offer income to policyholders for a reasonable period of time. The option may also enable policyholders of benefit-based health insurance policies get a stream of income over a predetermined period of time after triggering of the claim, according to Suresh Mathur, Executive Director, Health, IRDAI.

There are diverse views on the efficacy of the facility. While the idea looks good on the face of it, it may not click well with customers.

"In personal accidents and some categories of health cover, the objective of policyholders is generally not income generation.

"They may like to get claim immediately in this segment, and don't expect great numbers opting for it," said a top executive with a private general insurance company.

According to Shanai Ghosh, Head-Marketing and Commercial Business, Strategy, Edelweiss General Insurance, the settlement option proposed in the draft guideline introduces flexibility in the product structure for the customer, which is good.

'Needs robust processes'

"It needs to be implemented in a simple and transparent manner for the impact to be realised. Insurers will have to put in robust processes and systems to ensure a seamless experience for the customers," he added.

With kind regards,

Yours Comradely,



(**N. GOVINDRAJULU**)
GENERAL SECRETARY

