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Dear Comrades,

12 th April , 2019

News of Interest 12th APR

QUOTE OF THE DAY

“KNOWING IS NOT ENOUGH; WE MUST APPLY. WISHING IS NOT ENOUGH; WE MUST DO.”

– JOHANN WOLFGANG VON GOETHE

HIGHLIGHTS

1. WHISTLE-BLOWER LETTER: DELOITTE FACES SFIO PROBE IN IL&FS CASE
2. BANKS CLOSE FY19 WITH 13.24% CREDIT GROWTH, DEPOSITS UP 10.03%
3. SBI PUTS RS 8,453-CRORE BAD LOANS UP FOR SALE IN Q4
4. BBB FOR AUTONOMY TO PSU BANKS TO DECIDE ORGANISATIONAL STRUCTURE
5. MSME CREDIT: PUBLIC SECTOR BANKS' SHARE DIPS TO 39%
6. BANKS DIGITAL TRANSFORMATION SHOULD START WITH CUSTOMER EXPERIENCE

Business Standard

1. Whistle-blower letter: Deloitte faces SFIO probe in IL&FS case

The whistle-blower has sent the letter to other regulatory bodies like the Reserve Bank of India, Securities and Exchange Board of India (Sebi), and Ministry of Corporate Affairs

Dev Chatterjee & Shrimi Choudhary |

The Serious Fraud Investigation Office (SFIO) has initiated investigations into a whistle-blower complaint sent by a Deloitte employee and will summon its top officials for questioning to find out whether the Infrastructure Leasing & Financial Services (IL&FS) group's auditor deliberately ignored several red flags in the company's books, recommended

creating complex structures, and in a quid pro quo received high fees from the bankrupt company.

A top SFIO official said the probe agency had received a communication from a Deloitte Haskins & Sells whistle-blower, but declined to comment further. A few Deloitte officials have already been asked to join the enquiry, an SFIO source said, adding it was aware of the audit shortcomings and was now looking into IL&FS books of the last five years.

The whistle-blower has sent the letter to other regulatory bodies like the Reserve Bank of India, Securities and Exchange Board of India (Sebi), and Ministry of Corporate Affairs. The letter has also been shared with Grant Thornton, which is conducting a special audit of the IL&FS group. On April 4, the new board of IL&FS said gross NPAs (non-performing assets) of IL&FS Financial Services (IFIN) were at 90 per cent of the total loans as of December 2018.

The IL&FS group started defaulting on loans worth Rs 94,000 crore late last year, putting a question mark over its debt repayment capacity. The government sacked the old board and put a new board in charge of the company.

An external spokesperson for Deloitte said: "Deloitte takes issues such as these seriously, and is conducting a review regarding the allegations. There are several ongoing investigations. These agencies are in contact with us, being the previous auditors. We will continue to provide full support to their investigations."

In the complaint, the whistle-blower alleged that Deloitte's senior leadership was aware of the financial mismanagement and impropriety of the IL&FS group. "Deloitte has audited the group over a period of 10 years and has been an integral part of its unmitigated growth, benefitting in several ways in terms of being a preferred advisor as well as favouring Deloitte by awarding several advisory work on a single sourced basis with substantially high fees," the whistle-blower said, and added that the person, a senior member of the client team, had no faith in the current leadership of the auditing firm and, hence, the letter had been sent to the regulators.

The whistle-blower said that in order to protect the auditor's position, the modus operandi was whenever there were any dubious findings, Deloitte agreed to rely on the management's explanations and comfort letters. "Internally several views in matters of audit opinion were watered down by Deloitte leadership in the first instance. Over years, this has led the entire audit susceptible to legacy positions and compounded the financial mis-reporting. In many cases, the language of the management response was agreed beforehand by Deloitte to close its internal reviews," the communication said.

Financially, the IL&FS group provided additional fees as consultancy services for mutual benefit, the letter added. The letter alleged that in Deloitte's internal review meetings, observations and all adverse remarks would be taken behind closed doors by the audit partner Udayan Sen and discussed one on one with the top management and then "managed" by way of explanations and opinions. "Several times over the past three years, there had been enough facts discovered which would have qualified the report but these were deliberately overlooked," the whistle-blower wrote, asking the regulators to make sure that Deloitte keeps records of all the internal emails and minutes of meetings.

As compensation, it was agreed that the IL&FS group would remunerate Deloitte by way of consulting and advisory fees and as a part of this arrangement, several crores worth of engagements were given to the consulting division of Deloitte, a separate legal entity, under the guise of strategic study for diversification.

"Deloitte charged a very large sum of fees to recommend creating more complex financial services business and grow its already stressed book. This was under the guidance of Udayan Sen along with consulting partner Sanjoy Dutta," the letter said. In fact, Dutta had been given the responsibility to manage the IL&FS account and earn Rs 20 crore as annual consulting fees," the letter said, adding that the round-tripping of loans was evident in several cases but overlooked. As a favour to both parties, Deloitte appointed senior tax advisor to IL&FS, Dilip Lakhani at a very high salary for the services rendered to the IL&FS group and to ensure that he would earn revenue for Deloitte.

2. Banks close FY19 with 13.24% credit growth, deposits up 10.03%

Bank deposit growth fell to a five-decade low in year to March 2017 as demonetisation bonanza withered

Press Trust of India

Banks closed fiscal 2019 with robust disbursements that rose in double-digits for the second year in row, after the sub-5 per cent in FY17, which was the lowest in five decades.

According to the Reserve Bank data released Thursday, bank credit rose 13.24 per cent to Rs 97.67 lakh crore for the fortnight to March 29, while deposits grew by 10.03 per cent to Rs 125.72 lakh crore during the same period.

This is the second consecutive double-digits credit growth after the same had declined to 4.54 per cent in FY17 at Rs 78.41 lakh crore, which was the lowest since 1963.

In the year-ago fortnight, deposits were at Rs 114.26 lakh crore and advances at Rs 86.25 lakh crore, according to the RBI data.

In FY17, aggregate deposits in the banking system grew a mere 6.7 per cent in 2017-18, while credit grew still lower at 4.54 per cent, the lowest since fiscal 1963.

Bank deposit growth fell to a five-decade low in year to March 2017 as demonetisation bonanza withered.

It can be noted that during November-December 2016, banks received Rs a whopping 15.28 lakh crore as people deposited high denomination currency notes that were withdrawn from circulation on November 8. As a result, aggregate deposits in the fiscal ended March 2017 grew 15.8 per cent to Rs 108 lakh crore.

In the previous fortnight to March 15, 2019 credit demand had grown by 14.46 per cent to Rs 95.53 lakh crore while deposits increased by 10.03 per cent to Rs 122.26 lakh crore, show RBI data.

On a year-on-year basis, non-food bank credit increased by 13.2 per cent in February 2019 as compared with an increase of 9.8 per cent in the year-ago period.

Loans to the services sector almost doubled with a 23.7 per cent growth in February compared to 14.2 per cent in the same month last year.

Advances to agriculture and allied activities increased by 7.5 per cent in February compared to an increase of 9 per cent in February 2018.

Credit to the industry rose by 5.6 per cent in February, up from an increase of 1 per cent in February 2018.

Credit to the infrastructure, chemical and chemical products, and all engineering sectors accelerated. However, credit growth to basic metal & metal products, textiles, and food processing decelerated/contracted.

Personal loans rose 16.7 per cent in February down from 20.4 per cent in February 2018.

Financial Express

3. SBI puts Rs 8,453-crore bad loans up for sale in Q4

By: [Shritama Bose](#)

A loan account that has remained in NPA category for 5 years must be classified as a doubtful III account and fully provided for, as per RBI.

The secured portion of such an account attracts 40% provisioning, while the unsecured portion attracts 100%.

As a large number of micro, small and medium enterprises (MSMEs) and retail loan accounts slipped into the doubtful III category, State Bank of India (SBI) put Rs 8,453 crore worth of such bad loans on sale during the quarter ended March. According to bid documents issued by the bank, MSME loan pools of varying sizes were put on the block in four tranches during the quarter.

A loan account that has remained in the non-performing asset (NPA) category for five years must be classified as a doubtful III account and be fully provided for, as per the Reserve Bank of India's (RBI) 2015 master circular on prudential norms on income recognition, asset classification and provisioning pertaining to advances.

"We typically put an MSME account up for sale when it slips from the doubtful II to doubtful III category, because then the provisioning burden rises to 100%," a senior executive at the bank told FE. An account in the doubtful II category is one that has remained in the NPA category for over two years and under five years. The secured portion of such an account attracts 40% provisioning, while the unsecured portion attracts 100%.

SBI is looking to settle all the accounts it is offering on a 100% cash basis. Reserve prices put out by the bank suggest that it may take haircuts of up to 82% on some MSME accounts.

However, the reserve prices set for some of the retail loan pools are higher than the amount outstanding, suggesting that the bank will recover more than it has provided against these accounts.

Loans to MSMEs have become a sticky point for banks over the last few years amid demonetisation and the rollout of the goods and services tax (GST). In January this year, the RBI had allowed banks to carry out a one-time restructuring of existing loans that are in default but standard as on January 1, in order to ease the impact from the two blows of note ban and the GST.

In November, FE had reported that delinquencies on account of MSMEs rose to a high 13.08% for public sector banks at the end of March 2018, compared with 12.56% in March 2017.

Economic Times

4. BBB for autonomy to PSU banks to decide organisational structure

In its activity report for October 2018 to March 2019, the board also recommended incentivisation scheme linked to performance

PTI

The Banks Board Bureau (BBB), the apex body for selection of whole-time directors of state-owned lenders, has made a case for giving a complete autonomy to banks to decide organisational structure for better efficiency.

The BBB headed by former DoPT secretary B P Sharma also suggested revamping credit governance architecture in nationalised banks to reinforce efforts to minimise credit costs and enhance efficiency of credit allocation.

In its activity report for October 2018 to March 2019, the board also recommended incentivisation scheme linked to performance.

"Incentivise maximisation of risk adjusted income and disincentivise operational inefficiencies by aligning compensation with right performance metrics through the introduction of performance based compensation through Employee Stock Option Scheme (ESOS), which is different from Employee Share Purchase Scheme (ESPS), and Performance Linked Incentives (PLIs)," ..

Highlighting the work undertaken by the board during the period, it said the recommendations for filling up the posts of whole-time directors in public sector banks (PSBs) were made on time and as a result, the vacancies which came up during this six months' period were filled up without delay.

However, it said, the only vacancy which could not be filled up on time was that of MD and CEO in Canara Bank for which candidates outside the PSB universe are also eligible.

"The vacancy was advertised twice. However, it was met with less than enthusiastic response on both occasions. The bureau made the recommendation for filling up of the vacancy on January 31, 2019. The bureau has separately recommended to the government the measures which may improve the pool of talent for filling up such vacancies," it said.

It further said the bureau was assigned with the task of recommending personnel for appointment as director in PSU insurance company. In this regard, on January 4, 2019, it made its recommendations for appointment of chairman and MDs of LIC.

Prime Minister Narendra Modi in 2016 approved the constitution of the BBB as a body of eminent professionals and officials to make recommendations for appointment of whole-time directors as well as non-executive chairmen of PSBs.

They were also given the task of engaging with the board of directors of all the public sector banks to formulate appropriate strategies for their growth and development.

Besides, it was also asked to frame strategy discussion on consolidation based on the requirement. The government wanted to encourage bank boards to restructure their business strategy and also suggest way forward for their consolidation and merger with other banks.

Business Line

5. MSME credit: Public sector banks' share dips to 39%

[Our Bureau](#)

The share of public sector banks in lending to micro, small and medium enterprises (MSME) has been declining although overall lending to the sector has expanded rapidly.

According to the TransUnion CIBIL-SIDBI MSME Pulse quarterly report, the market share of public sector banks in MSME lending (both entities and individual segment) has reduced from 58 per cent in December 2013 to 39 per cent in December 2018.

Private Banks make a mark

The data comes at a time when the government has been pushing its ambitious MUDRA scheme to boost such enterprises and create employment and private sector banks have also been getting increasingly attracted to the sector.

The report, however, noted that PSBs continue to be the single biggest lender to MSMEs. However, private sector banks now have 33 per cent of the market share in lending to the sector in December 2018 from a mere 22 per cent in December 2013.

"Going forward, we would expect that the PSBs would be able to claw back some of the share losses as more PSBs come out of the PCA framework. Their market share growth will also be aided by the continued funding constraints being experienced by the NBFC segment," the report said.

Aggregate lending up

It also noted that aggregate lending to MSMEs has risen by a compounded annual growth rate of 19.3 per cent over the last five years. Of the total on-balance sheet credit exposure in India of ₹111.1 lakh crore as of December 2018, MSME credit accounted for ₹25.2 lakh crore.

The analysis also revealed that over the last five years, aggregate MSME lending as a proportion of the GDP has increased by around 400 basis points to reach 13.6 per cent in December 2018 from 9.6 per cent in December 2013.

6. Banks digital transformation should start with customer experience

[Vinson Kurian](#)

'It need to go beyond offering customers a product or a service and own the experience instead'

Access to credit is not the same as enabling a credit card, according to Brett King, acclaimed influencer in financial services, Co-Founder and CEO of Moven, US-based mobile financial services provider.

"It's more about creating an a new credit experience where banks can predict and assist one's daily life credit requirements without a credit card and how Open Banking can tie all these data together for them."

Four major trends

King said in keynote address to 'Confluence,' a flagship event hosted in Dubai by the Thiruvananthapuram-based SunTec Business Solutions, a leader in relationship-based pricing and customer experience orchestration.

As a futurist, King visualised how four major trends - artificial intelligence, voice-based artificial intelligence, smart glasses and machine learning - are changing the ecosystem dynamics.

He also dwelt at length on how these will need to be embedded in customer experience journeys across industries like banking, telecom and retail.

They also look to build a new core that is intelligent, immersive, integrated and invisible - one that can help in creating highly personalised customer experiences.

Digital transformation is gaining priority for organisations, the main drivers being the opportunities it presents and the competitive pressure to stay ahead of the digital curve.

Banks and other organisations need to go beyond offering customers a product or a service and own the experience instead. This was the highlight of the presentations made at confluence.

'Hollowing the core'

The larger theme for the event was 'Digital at the Core,' an essential strategy as leading organisations seek to digitally transform, modernise legacy systems, a SunTec spokesman said.

The key takeaway was the growing need for organisations to focus on the 'customer experience' part of their digital transformation programmes.

Replacing the core is not a viable option for most banks, which used to be a big hurdle for modernisation projects. But not anymore, as became clear through different sessions at Confluence.

The SunTec product session demonstrated how banks can adopt a simple approach of 'hollowing the core' and separating the customer engagement layer to leapfrog the customer experience ladder.

'Hollowing the core' refers to the focused activity that helps providers of IT technology diversify for greater flexibility and innovation.

The primary idea behind this action is to have traditional core banking platforms solely act as systems of record that securely hold information about customers' transactions, history and status.

This simple yet highly effective strategy enables banks of all types, to exponentially increase their customer experience orchestration capabilities.

Digital transformation

Nanda Kumar, CEO, SunTec, talked about the ever-pervasive effects of Industry 4.0. He advised organisations to understand and embrace the 'basic human-needs' driven approach if they want to succeed in today's digital world. Jost Hopperman, Vice-President, Forrester Research, was another prominent keynote speaker.

Amit Dua, President, SunTec, said, that the goal of Confluence is to provide a meaningful platform for industry thought leaders to come together and deliberate on the state of digital transformation.

The response has been extremely positive with generous appreciation for the content. "We are delighted to have delivered to expectations of our clients and partner ecosystem in helping shape the digital transformation roadmap for the industry."

SunTec has been a provider of services to various banks and other enterprises for years, the spokesman said. The Dubai event highlights its growing presence and focus in Middle East.

A number of leading banks in the region are working with SunTec in meeting VAT regulations as well as moving further in their legacy transformation journey by reating a truly digital core.

With kind regards,

Yours Comradely,



(**N. GOVINDRAJULU**)
GENERAL SECRETARY