AIBEA's Banking News

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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

AIBEA says RBI can't be 'extension counter' of govt, slams move to transfer huge surplus

The All India Bank Employees Association (AIBEA) said the RBI was created as an independent institution mandated with the responsibility of ensuring the stability in the economy besides monitoring external stability, monetary stability and money supply.

PTI @ moneycontrolcom/Aug 28, 2019 - Source: PTI

Slamming decision of the RBI to transfer its excess reserve to the government, bankers' body AIBEA on Wednesday said the apex bank should not be an "extension counter" of the finance ministry and what is happening now is a matter of "serious concern".

The **All India Bank Employees Association (AIBEA**) said the RBI was created as an independent institution mandated with the responsibility of ensuring the stability in the economy besides monitoring external stability, monetary stability and money supply.

"RBI is a totally autonomous body and is not expected to be an extension counter of the finance ministry or the government. It has specific tasks to perform which should not be interfered with.

"But, what is happening now is a matter of serious concern where the RBI is apparently forced to bow down to the wishes of the government to release their funds to bridge the fiscal deficit of the government," AIBEA said in a statement.

The RBI board on Monday accepted the recommendations of the Bimal Jalan committee and decided to transfer Rs 1,76,051 crore to the government. The amount consists of Rs 1,23,414 crore surplus or dividend for 2018-19 and another Rs 52,637 crore from its surplus capital.

The umbrella body of the bank unions also said, "This was being objected to by earlier top brass of the RBI and, hence, had to leave their jobs abruptly."

AIBEA said when the country's economy is already facing turbulence and slowdown, instead of taking measures that will boost the economy, efforts are being taken that will further precipitate the economic instability.

"Now, ways and means are being found to force the RBI to part with huge amounts in the name of transfer of surplus. Even while the surplus in the contingency fund can be transferred to the government, what has been done by the RBI now is to maintain the reserve at 5.5 per cent at the lower band instead of the higher band at 6.5 per cent," said AIBEA General Secretary C H Venkatachalam.

He said the transfer of this huge amount leaves no room for the Reserve Bank of India (RBI) to meet any contingent risk.

"This is the lowest level that the RBI has maintained thus far under the fund. This lowers the RBI's flexibility to manoeuvre in future. Hence, looking from every angle, the pressure on RBI to transfer such huge amount is fraught with risk to the economic stability of the country and hence avoidable," AIBEA added in the statement.

It also said the government, which in the budget session of Parliament denied that India is facing any economic slowdown, has now acknowledged it as set of measures have been announced by Finance Minister Nirmala Sitharaman last week.

AIBEA said it was unfortunate that instead of taking measures to revive the economy and address the problems faced by those affected by the slowdown, the measures are only meant to help the corporates.

"Further concessions have been extended to them (corporates). This is because the government, including the Prime Minister, is saying that wealth creators should be honoured, protected and respected. The real wealth creators are the workers in the factories and manufacturing sector and the poor peasants in the agriculture sector, but they are not being protected from the huge loss of employment, lay-offs, and from unremunerative prices for their produce."

The government's announcements would only benefit the corporates and not help to boost the real economy.

The umbrella body of the bank staff said that when banks are already saddles with huge bad loans of the corporate sector, further pressure to ease credit flow to them will only aggravate the plight of the banks.

"Banks are being forced to reduce the rate of interest on loans. Who will bear the loss of revenue for the banks. The government should announce equivalent subsidy and not force the burden on the Banks," AIBEA said.

Pressure on RBI to transfer reserve endangers economic stability: AIBEA

The association's chief says RBI is now maintain the reserve at the lower band of 5.5% instead of at the higher band of 6.5%, leaving little room for it to meet unforeseen contingencies

Gireesh Babu | Chennai August 28, 2019

BUSINESS STANDARD

The pressure on RBI to transfer a staggering sum of Rs 1.76 trillion to the government is fraught with risks to the economic stability of the country and is therefore avoidable, according to the **All India Bank Employees Association.**

C H Venkatachalam, general secretary, AIBEA said, "it is surprising that when our country's economy is already facing turbulence and serious slowdown, instead of taking measures that will boost it, efforts are being taken which will further precipitate economic instability."

He said, "RBI was specifically created as an independent institution mandated with the responsibility of ensuing the stability in the economy, besides monitoring external stability, monetary stability and money supply. RBI is a totally autonomous body and is not expected to be an extension counter of the Finance Ministry or the Government."

Venkatachalam added that the apex bank has very specific tasks to perform, and could do without interference. But what is happening now is a matter of serious concern where the RBI is apparently forced to bow to the wishes of the Government to release its funds to bridge fiscal deficit.

RBI’s Reserves are meant to protect the various risks to the economy, Venkatachalam said, adding that the reserves are, in fact. not real reserves, and depend on the market fluctuations in gold price, dollar rate and rate of interest on bonds. It is a notional gross value and is actually unrealised surplus. This surplus cannot be separately extracted, he asserted.

Venkatachalam added that even while the surplus in the contingency fund can be transferred to the government, what has been done by RBI now is to maintain the Reserve at the lower band of 5.5 per cent instead of at the higher band of 6.5 per cent, leaving little room for it to meet unforeseen contingencies. This is the lowest level that the RBI has maintained thus far under the fund and lowers the apex bank's flexibility to manoeuvre in future.

Bank frauds rise 74% to Rs. 71,543 cr

Our Bureau Mumbai August 29, 2019

The amount involved in bank frauds jumped 73.8 per cent year-on-year (y-o-y) to ☐71,543 crore in 2018-19, against ☐41,167 crore in 2017-18, according to the RBI’s latest annual report.

The central bank said the increased amount involved in frauds was mostly related to occurrences in earlier years.

The average lag between the date of occurrence and its detection by banks was 22 months. The average lag for large frauds – ☐100 crore and above, amounting to ☐52,200 crore reported during 2018-19 – was 55 months.

The number of cases of frauds reported by banks increased by 15 per cent y-o-y in 2018-19 to 6,801 against 5,916 in 2017-18.

Among bank groups, PSBs, which constitute the largest market share in lending, have accounted for the bulk of frauds (at 90.2 per cent of total fraud amount) reported in 2018-19.

It was followed by private sector banks (7.7 per cent) and foreign banks (1.3 per cent).

Read | Currency in circulation rises, but ☐2,000 notes on the wane

In terms of area of operations, frauds related to advances constituted the preponderant share (shooting up to 90.2 per cent in 2018-19 against 54.8 per cent in 2017-18) of the total amount involved in frauds, while the share of frauds in off-balance sheet items declined to 7.7 per cent from 39.6 per cent from a year ago.

In terms of the number of frauds, too, those related to advances were predominant (53 per cent), followed by card/internet-related frauds (27.4 per cent) and deposit-related (8.8 per cent) frauds.

Frauds relating to card/internet and deposits constituted only 0.1 per cent (0.3 per cent in 2017-18) of the total value of frauds in 2018-19. Cheating and forgery was the major component, followed by misappropriation and criminal breach of trust.

Fraud cases involving an amount of less than Rs 1 lakh (small value frauds) were only 0.1 per cent of the total amount involved in 2018-19.

Lakshmi Vilas Bank MD&CEO Parthasarathi Mukherjee resigns

Our Bureau Mumbai | August 29, 2019

Parthasarathi Mukherjee, Managing Director & Chief Executive Officer of Lakshmi Vilas Bank (LVB)has put in his papers citing personal reasons.

Mukherjee's resignation comes at a time when the Reserve Bank of India is considering a proposal of merger of Indiabulls Housing Finance with LVB.

His resignation letter was placed before the Board in the Meeting held on Wednesday and the Board has accepted the same, the Bank said in a stock exchange notice.

The notice said Mukherjee will be relieved from his services at the closing hours on Saturday, 31st August 2019 as per his request.

LVB, in early April 2019, said its board has considered and approved the proposed scheme of amalgamation between Indiabulls Housing Finance Ltd (IBHFL) and LVB, subject to approval of the regulator, various complying bodies and the shareholders.

As per the scheme, LVB's shareholders will get 14 shares of Indiabulls Housing Finance for every 100 shares held in bank.

The Bank then said the merged entity's net worth will be Rs 19,472 crore, with 14,302 employees and a loan book of Rs 1.23 lakh crore.

Poor recoveries under IBC can derail Centre's Rs 70,000-cr recap plan

Radhika Merwin BL Research Bureau | August 28, 2019

Barring few cases, large haircuts of 70-90 per cent are continuing to hurt banks

While the Centre's decision to frontload capital infusion of Rs 70,000 crore into PSBs has boosted sentiment, unless there is quick resolution of large accounts under IBC, this may achieve little. What is of more concern, is the paltry amount that banks have been realising from the resolution of accounts under IBC.

A look at data available on the Insolvency and Bankruptcy Board of India (IBBI) website from the Oct-Dec 2017 quarter (when the first set of resolutions came about), suggests that barring few accounts such as Electrosteel Steels, Bhushan Steel and Binani Cements - where the amount realised by financial creditors as a per cent of their claims has been between 40-100 per cent - the average recoveries in other cases has been poor at 20-25 per cent. This has meant huge haircuts for banks, accentuating the problem of excessive delays.

The data put out by IBBI pertains to cases where the resolution plan has been approved by the CoC (Committee of Creditors). These may not have translated to actual recoveries for banks as many of the cases have been stuck in endless litigations or even ended up in litigation subsequently.

Of the two list of accounts that the RBI had referred to IBC for resolution - constituting about half of the bad loans in the system - only in a handful of cases such as Bhushan Steel, Monnet Ispat and Electrosteel Steels, banks have actually recovered some amount. In others, while the CoC may have approved the resolution plan, cases are still stuck in litigations. Bhushan Power & Steel, Essar Steel and Alok Industries - are a case in point.

Unless quick and healthy resolution of large accounts under IBC happens, earnings and hence capital of PSU Banks will be under pressure. The Rs70,000 crore capital infusion may not help much by way of boosting credit growth. Persisting slippages and growing stress book can only be offset by huge write-backs of provisions made by PSBs for large IBC accounts.

Sombre picture

As of June 2019, 2162 accounts have been admitted under IBC. Of this only 120 have seen resolution yet, while 475 have gone under liquidation. Data compiled for cases where resolution plan has been approved from the Oct-Dec 2017 to April-June 2019 quarter, reveals that in about 40 per cent of the 120-odd cases, realisation has been less than 30 per cent (as against claims). A fifth of the cases have less than 20 per cent recovery rate.

The 82 odd cases where recovery rate is a high 70-100 per cent, banks' claims have mostly been less than Rs100 crore.

Big ticket accounts with claims of over Rs3000 crore (85 per cent of total approved cases by value) where resolution plan has been approved are about 15. Here, the recovery rate has been about 38 per cent. If we exclude Electrosteel Steels, Bhushan Steel and Binani Cements - the recovery rate falls below 20 per cent.

Low realisation from IBC cases

	Liquidation value (₹ cr)	Realisations by FCs (₹ cr)	Claims of FCs (₹ cr)	Realisation by FCs (%)
Oct-Dec 2017	1,429	1,854	5,524	33.6
Jan-Mar 2018	1,427	3,070	4,405	69.7
April-June 2018	18,084	42,885	76,239	56.3#
July-Sept 2018	9,541	11,079	42,270	26.2
Oct-Dec 2018	2,954	7,303	8,447	86.4*
Jan-March 2019	6,138	9,551	39,643	24.1
April-June 2019	4,175	4,365	31,468	13.9

*About 88% of the realisation in the quarter pertains to Binani Cements, where recovery rate was 100% #includes Electrosteel Steels and Bhushan Steel
Source: Compiled from quartely data put out in IBBI website

Stuck in litigations

Of the first list of accounts referred by the RBI for insolvency, while Bhushan Steel (taken over by Tata Steel) saw 63 per cent of lenders' claims (about Rs35,000 crore) being settled, for Alok Industries, the resolution plan approved offered only 17 per cent against claims of nearly Rs30,000 crore. Again while Electrosteel Steels yielded 40 per cent recovery rate, Monnet Ispat and Amtek Auto saw only 25-35 per cent realisation against lenders' claims.

The low recovery is accentuated by the endless litigations in many of the cases that are delaying the end recovery to banks (albeit meagre). For instance, in case of Alok Industries, GAIL had filed a petition in May opposing the resolution plan.

In the Essar Steel matter, the NCLAT had set aside the CoC decision on distribution of the Rs42,000 crore proceeds, and instead prescribed a different sharing arrangement that had not gone down well with secured financial creditors. While subsequent amendments to the IBC have dispelled fears and given priority to secured creditors, the case is yet to see closure and recovery for banks.

In case of Amtek Auto, NCLAT recently ordered liquidation of the company, after the bid winner---Liberty House Group—failed to meets its obligation under the resolution plan.

Write-backs critical

With slippages continuing to rise and stressed book building up, NPA provisioning could continue to weigh on earnings. Much of the proposed capital infusion of Rs 70,000 crore could get sucked into provisioning, unless write-back of provisions made for large accounts under IBC, kick in.

SBI, for instance, has about Rs38,700 crore exposure to accounts under the RBI's first and second list. The bank has made Rs 35,500 crore or 91 per cent provisioning against them. The bank's exposure to all cases under NCLT (including cases beyond the two lists) is over Rs1.1 lakh crore. Unlocking of capital by way of write-backs will be critical to ramp up credit growth. In the latest June quarter, SBI added Rs16,212 crore to its bad loan book which is already over Rs1.6 lakh crore. Hence NPA provisioning will remain elevated in the coming quarters, eating into earnings and impeding credit growth.

Similarly Bank of Baroda has about Rs 37,100 crore exposure to IBC accounts (Rs 12,700 under RBI's two lists) on which it carries about 88 per cent provisioning. Fraud-hit PNB has Rs 42,500 crore of exposure to IBC accounts, with 88 per cent provisioning.

If recoveries under IBC remain poor, substantial write-back of these provisions will not happen, aggravating the issue of weak credit growth and capital ratios for PSU Banks.

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