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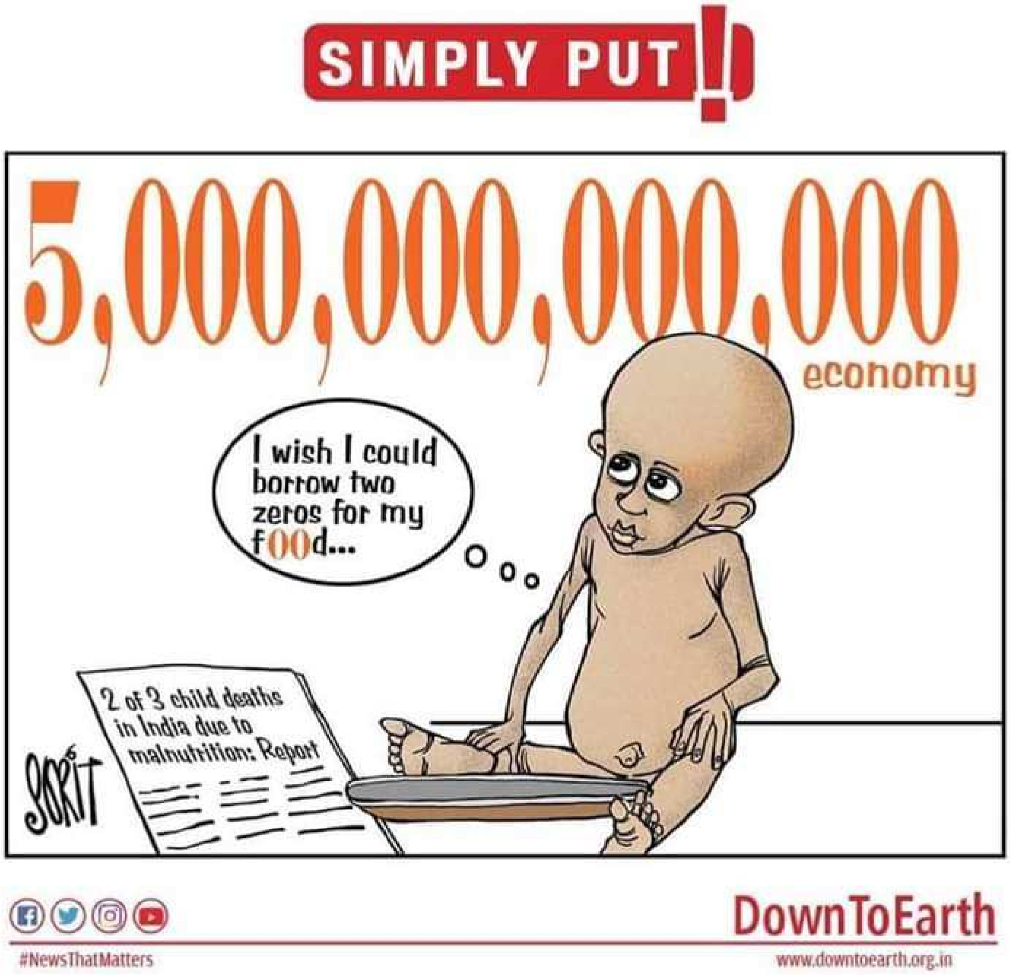


AIBEA, AICBEF seeks Centre's urgent intervention on PMC's bank issue

Hyderabad, Sep 26 (UNI)

All India Bank Employees Association (AIBEA) and All India Co-operative Bank Employees Federation (AICBEF) sought the intervention of Union Government on the Reserve Bank of India (RBI) clamping a ban on withdrawals (more than Rs 1,000) from the Punjab Maharashtra Cooperative (PMC) Bank.

In a letter to Finance Minister Nirmala Sitharaman, AIBEA General Secretary Ch Venkatachalam and AICBEF General Secretary Tapan Kumar Bose on Thursday said the Centre has to take action on the officials of RBI who are responsible for not taking timely action on PMC Bank problems besides criminal action to be initiated on the top officials of PMC bank for the acts of suppression and mismanagement and lift the ban on the restrictions on customers to withdraw their own money.

If there has been any mismanagement of PMC Bank, RBI should take serious action on the top officials of the Bank who are responsible instead of putting the depositors into untold troubles, Mr Venkatachalam said in a separate release.

Similarly, as the Regulator, RBI knows everything what is going in all the Banks. How the irregularities in PMC Bank was overlooked by RBI and how can it escape from this responsibility, he said.

If such things will continue, people would tend to lose faith in the Banks. This will pose a serious problem to the economy, the top Union leader said.

He said at a time when the economy is in crisis, instead of taking the support of the people, the Government and the RBI seem to be punishing the customers, again and again.

We have already experience the horrible experience of femonetisation when the Government and the RBI put the common people into indescribable torture to withdraw their own money.

Last year the Government had brought the FRDI Bill by which an attempt was made to usurp the money of the poor depositors to salvage an ailing Bank created by big loan defaulters.

Then started the attack in the form of penalty charges for not maintaining minimum balance and steep hike in various service charges to off-set the losses incurred on account of provisions for bad loans of corporate defaulters.

Then came the transfer of Rs. 1,76,000 crore from the Reserves of RBI to the Central Government.

This was followed by announcement of Revenue foregone to the extend of Rs.1,46,000 crore in favour of the big corporate companies and reduction in corporate tax, Mr Venkatachalam said.

Make RBI accountable for PMC Bank problems: Unions urge FM Nirmala Sitharaman

September, 26, 2019 | | IANS Chennai:

ETNOWNEWS.COM

According to the unions, RBI and the government should take criminal action on the top management of the PMC Bank for not classifying the huge loan given to Housing Development Infrastructure Ltd. (HDIL).

Two major unions in the banking sector has urged Finance Minister Nirmala Sitharaman to make Reserve Bank of India (RBI) accountable for the problems in Punjab & Maharashtra Co.Op. Bank. The two unions are - All India Bank Employees' Association (AIBEA) and All India Co.Op. Bank Employees Federation (AICBEF).

In a letter to Sitharaman on Wednesday the two unions said the RBI's instruction restricting the withdrawal of money by the innocent depositors of Punjab & Maharashtra Co-op. Bank (PMC Bank) has resulted in a panic in the minds of customers in particular and banking public in general.

"All Banks are directly under the supervision and monitoring of the RBI. Hence, the RBI has miserably failed to take timely preventive action in this non-declaration of the default as NPA (non performing asset) by the PMC Bank," the unions said.

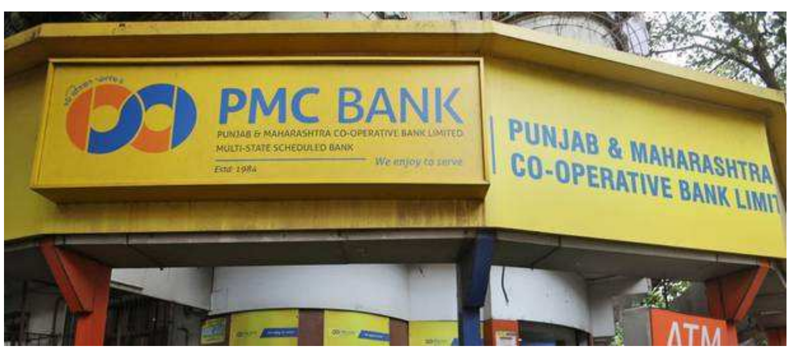
"Hence, the government should take a serious view and make the RBI accountable for this sad episode where the general banking public have been affected without any fault on their part. Stern action should be taken on the officials in the RBI who are responsible for this serious lapse," they added.

According to the unions, RBI and the government should take criminal action on the top management of the PMC Bank for not classifying the huge loan given to Housing Development Infrastructure Ltd. (HDIL).

"But unfortunately, instead, the innocent customers of the Bank are being punished now with the RBI's ban instructions limiting the withdrawal to Rs 1,000. This is really unfair and obnoxious on the part of the RBI to do so," the unions told Sitharaman.

PMC Bank: RBI raises withdrawal limit to Rs 10,000

K Ram Kumar BL Mumbai | September 26, 2019



Financial irregularities, failure of internal control and systems of the bank, and wrong/under-reporting of its exposures

Reserve Bank of India (RBI) has relaxed the withdrawal limit for account holders of beleaguered Punjab and Maharashtra Cooperative (PMC) Bank from Rs 1,000 to Rs 10,000 with immediate effect.

This comes after thousands of customers gathered at the bank's branches in Mumbai for the third day on Thursday to protest against the RBI's direction to impose restrictions on withdrawal amounts.

Some of them had said they would initiate legal action. Senior official sources told BusinessLine that the revised withdrawal amount will be communicated soon.

"Other terms and conditions of the said Directive shall remain unchanged. With the above relaxation, more than 60 per cent of the depositors of the Bank will be able to withdraw their entire account balance," RBI said in a statement.

"The above relaxation has been granted with a view to reducing the hardship of the depositors. The Reserve Bank is closely monitoring the position and shall continue to take further steps as are necessary to safeguard the interest of the depositors of the bank," it added.

RBI explained that the directions against the bank were necessitated on account of major financial irregularities, failure of internal control and systems of the bank and wrong/under-reporting of its exposures under various off-site surveillance reports to RBI that came to the Reserve Bank's notice recently.

In earlier instances, RBI had relaxed the withdrawal amount but only after few months of the initial action.

Similar sanctions

The RBI has, in the past, imposed similar sanctions on other banks, especially co-operative banks. This month, it has extended such sanctions under Section 35 (A) for Osmanabad-based Vasantdada Nagari Sahakari Bank, Vithalrao Vikhe Patil Co-operative Bank in Nashik and Karad Janta Sahakari Bank.

In May this year, it had imposed financial curbs on Goa-based The Madgaum Urban Co-operative Bank and capped withdrawals by account holders at Rs 5,000. “The directions by the RBI are in public interest to ensure better governance and controls at these banks,” said a former banker who did not wish to be named.

The RBI must bat for conversion of co-operative banks into more regulated entities

| BUSINESSLINE EDITORIAL September 25, 2019

The RBI also needs to be more transparent about its strictures on co-operative banks

Just as they were coming to terms with the bad loan saga of public sector banks and the crisis in deposit-taking NBFCs, Indian savers have been jolted by RBI’s sudden directions on Tuesday, freezing the deposit and loan operations of Punjab and Maharashtra Co-operative (PMC) Bank. The RBI’s strictures on PMC Bank came as a surprise given that the bank’s latest audited numbers sent out no alarming signs. As per its audited accounts for FY19, PMC Bank reported comfortable capital adequacy of 12.6 per cent, a significant deposit base (☐11,600 crore) and operations spanning seven States. Though the bank disclosed a spike in its net non-performing assets to 2.19 per cent, it remained both profit-making and dividend-paying. Thus, RBI’s directions capping deposit withdrawals from the bank at ☐1,000 per account and barring it from granting new loans, making payments or accepting deposits for the next six months, have come as a shock both to its depositors and MSME customers.

Though depositors flock to co-operative banks lured by their high interest rates, these banks today represent the weakest link in the Indian banking system, with scams and failures laying low hundreds of such banks in the last decade. Initially set up to further financial inclusion, co-operative banks have failed to evolve with the times in terms of lending practices and governance structures. Lax dual regulation by the RBI and the Registrar of Co-operative Societies has led to these banks falling into a sort of regulatory no-man's land, with prudential norms and capital requirements supposed to be set by the RBI, while management constitution, audits and distress resolution are left to the Registrars of Co-operative Societies. Large borrowers in co-operative banks doubling up as key shareholders has made for weak governance, leaving depositors exposed to misdirected lending and rampant funds diversion. Though several RBI committees have expressed their unease over the functioning of co-operative banks, reforms have made slow progress with an active nexus between bank managements and State-level politicians. But given the significant damage that mis-governance of co-operative banks is inflicting on hapless retail depositors, it is high time RBI pushed for their mandatory conversion into more regulated entities such as small finance banks. Insurance protection to depositors in these banks needs to be raised from the woefully inadequate ☐1 lakh, with insurance premiums charged to co-operative banks aligned to their high risk profile.

The RBI also has some soul-searching to do on the opaque manner in which it communicates its sudden strictures on co-operative banks to the investing public. Its latest direction on PMC Bank, while drastically curtailing the bank's operations, offers no reasons for these actions. After slapping restrictions on co-operative banks in the past, the RBI has offered no regular updates to the investing public. In its zeal to crack the regulatory whip on erring banks, the RBI must not forget that it also owes accountability to consumers whose interests it is tasked with protecting.

PMC fiasco: How the RBI has been nudging cooperative banks to become more professional

Surabhi Mumbai | September 26, 2019/ BUSINESSLINE

It could also help them turn into small finance banks.

The Reserve Bank of India (RBI), over the last few years, have been introducing norms for urban cooperative banks with the hope of making them more professional and to help them expand their operations.

These include provisions that could help them turn into small finance banks.

In June 2018, the RBI released draft guidelines on the constitution of boards of management (in addition to the existing board of directors) to bring in members with specialised knowledge and professional management skills.

In September, it introduced a scheme for voluntary transition of UCBs into SFBs to strengthen regulation and increase opportunities for growth.

But sources said there has been little response to the norms announced by RBI. Perhaps, the criteria of a minimum net worth of Rs 50 crore as well as maintaining the Capital to Risk (Weighted) Assets Ratio of nine per cent and above to apply for voluntary transition to SFB under the scheme would be difficult.

Punjab & Maharashtra Co-operative Bank is a Multi-State Scheduled Urban Co-operative Bank.

"UCBs are increasingly facing competition from new players like payments banks, small finance banks and NBFCs. In order to remain competitive, it is necessary for them to adopt robust information technology (IT) systems, inter alia, by leveraging on the Reserve Bank's IT support. As regards governance, the separation of executive and supervisory roles is essential to improve the interests of depositors," the RBI had noted in its report on Developments in Cooperative Banking in December last year.

According to the report, there are 1,551 urban co-operative banks (UCBs) at end-March 2018 with assets worth Rs 5.63 lakh crore. There has been a gradual decline in such lenders on the back of mergers and consolidation in the sector.

Did HDIL take loans from PMC to settle Bank of India's dues?

Our Bureau Mumbai | September 25, 2019 BL

Did Housing Development Infrastructure Ltd (HDIL) take loans from Punjab and Maharashtra Co-operative (PMC) Bank, which has now been placed under regulatory restrictions, in a bid to enter into one-time settlement (OTS) with Bank of India (BoI) and stave off the Corporate Insolvency Resolution Process (CIRP)?

As per a letter written by BoI to HDIL promoter Sarang Wadhawan in late August 2019, the former acknowleged receipt of two PMC Bank pay-orders totalling □96.50 crore towards OTS of the bank's investments in HDIL's non-convertible debentures (NCDs).

Though BoI has encashed the pay-orders issued by HDIL, it is yet to take a call on the OTS offer, a senior executive said.

As per HDIL's latest annual report, it has taken loans payable on demand from PMC Bank. The loans are secured by pledge of fixed deposit receipts with the bank.

The report did not specify the quantum of loan taken by the real estate developer from PMC Bank.

HDIL has investments aggregating □72.50 lakh in the shares of PMC Bank as per the share linking to borrowing norm for taking loans from urban co-operative banks. The shareholding of HDIL in PMC Bank is 0.095 per cent of the latter's subscribed and paid-up capital.

AGM cancelled

Meanwhile, PMC Bank's 36th annual general meeting, which was scheduled to be held on September 28, has been cancelled.

Co-operative banking experts and depositors say the RBI action against the bank was too harsh and that the withdrawal cap is causing lot of hardship to the depositors. They emphasised that in similar situations involving large private sector banks, the regulator has let them off the hook by imposing only monetary penalties.

Customers mull legal action to revoke RBI order on PMC Bank, access funds

Our Bureau Mumbai | BL September 25, 2019

Thousands of distraught customers of Punjab and Maharashtra Cooperative Bank gathered at the bank's branches in Mumbai for a second day on Wednesday to protest against the Reserve Bank of India's direction to impose restrictions on withdrawal amounts.

Some of them said they would initiate legal action.

"I had saved up for my daughter's marriage in December, but my money is now stuck," said Harshit Rane, a customer. "I have no option but to approach the courts."

He said he was in touch with like-minded customers.

Sawarna Maudaankar, 68, wondered why consumers were being penalised for the bank's fault.

"I use this account for my daily expenses, and I cannot survive on □1,000 (the maximim permissible withdrawal)."

According to media reports, what triggered the RBI action was a loan extended by PMC Bank to the now-bankrupt real estate firm Housing Development and Infrastructure Limited (HDIL).

Political angle

The controversy turned political, with senior Congress leader Sanjay Nirupam writing to the RBI seeking action against the bank management and asking for the restrictions on withdrawal to be lifted.

Nirupam's letter stated: "The bank has exposure in several real estate companies which should be investigated. RBI must explain... whether it was just HDIL which failed the bank or are there other such NPAs.

"Accountability must be fixed and RBI must lift the restriction of withdrawal..."

Analysts, however, said customers had few options. "Depositholders have a right to go to court against the bank, but the situation will take years to resolve. Unless the RBI acts fast, confidence in cooperative banks will fall,"said Capitalmind.in Founder Deepak Shenoy.

Experts said consumers should first withdraw the □1,000 permitted, and then look for other sources of money. If loan EMIs are linked to the PMC bank account, users should link it to another account.

RBI spikes rumours

Meanwhile, to assuage concerns over similar action over other banks, the RBI issued a statement rejecting rumours about closure of nine banks.

"Reports appearing in some sections of social media about RBI closing down certain commercial banks are false," the RBI said in a tweet.

Loan melas may trigger fresh NPA crisis

Radhika Merwin | BUSINESSLINE September 26, 2019

There has been an NPA spike in the agri and MSME space. The directive to lend freely to this segment could worsen matters

"They had learned nothing and forgotten nothing". This oft-repeated quote is what comes to mind with the Centre's latest 'loan ***mela***' drive. The proposed loan camps alongside dispensation for stressed MSMEs is a throwback of sorts to the genesis of the ongoing bad loan mess. After all, much of our NPA problems and India Inc's indebtedness stems from shoddy decisions and indiscriminate lending in the mid-2000s, triggered by political interventions and crony capitalism.

In a desperate attempt to revive the stuttering economy, Finance Minister Nirmala Sitharaman announced that all banks are to hold large gatherings in 400 districts, where customers can come and take any type of loan from banks and the NBFCs partnering with them. It has been said that the last time such loan ***melas*** took place was in the early 1980s. But under the BJP-led government, such a massive-scale initiative reminds you of the Jan Dhan drive in which eight crore accounts were opened in just 100 days.

But then, lending and opening of accounts are two vastly different things, are they not? This is a question that the government, hell-bent on jump-starting the credit engine in the economy, needs to ask itself before embarking on such a massive-scale loan campaign.

Lending involves assessment of the creditworthiness of a borrower, careful due diligence of the purpose for which the loan is being disbursed and continuous follow-up. Side-stepping any of the credit appraisal processes to meet the FM's "five new customers for every one existing customer'' diktat can only spell trouble for the banking sector, which is still reeling under the after-effects of indiscriminate corporate lending.

The FM's proposed move attempts to dispel the notion that banks are still reluctant to lend to cash-strapped NBFCs (hence the insistence that banks partner with NBFCs). The idea is also to ensure maximum credit disbursal during the festive season. Banks extending credit in full throttle across villages and districts is expected to kick off consumption and fuel economic growth.

The question is whether such short-term, consumption-led doses can lead to a sustainable growth in the economy? Remember, during the 2008 global financial crisis, it was a similar consumption-driven stimulus that boosted our economy. A decade later, the profligacy has ended up costing banks dearly.

If banks are not prudent and guarded this time around, then the loan jamboree could well set off the next NPA crisis.

NPAs on the rise

Interestingly, the FM's attempt to boost credit growth in the so-called 'RAM' category — retail, agriculture and MSMEs — through the loan camps are the very segments that banks have been focussing on, over the past two years. After the massive clean-up of balance sheets and huge NPA provisioning for corporate loans, PSU banks have been chasing less risky loans (perceptibly at least). The credit growth in the RAM category has been 12-14 per cent over the past 3-4 years.

But underlying risks in these segments have started to come to light, evident in the sharp rise in bad loans over the past two years.

While a chunk of the NPAs in the system still pertains to the corporate sector, there has been a sharp rise in MSME and agri NPAs in the past two years. For instance, NPAs in the agriculture loans have shot up from 4-odd per cent in FY16 to more than 8 per cent in FY19. Individual PSU bank figures are more disturbing. In some banks, NPAs in the agri and MSME sector are at a high 15-16 per cent. If banks embark on reckless lending to these segments, NPAs can balloon over the next 1-2 years.

What is particularly worrying is the fact that weak economic growth adversely impacting personal incomes (rural incomes have seen a sharper fall), can nudge people and businesses to borrow more to keep up with their spending activity, no matter what their credit absorption capacity may be.

Few bankers have indicated that loans offered through these camps would be special festive offers, that include attractive interest rates and waiver of processing fee etc, which may lead farmers and small businesses to lap up loans with great zeal.

Pushing credit at such a massive scale to borrowers with little understanding of the perils of over-leveraging, can only spell doom.

According to the report of the RBI’s Internal Working Group on agriculture credit, in some States, agri credit is higher than their agri GDP, indicating the possibility of diversion of credit for non-agricultural purposes.

This only accentuates the problem of debt overhang, given that there is a high risk of indebtedness in some of the States. Bankers say that most of the farmers have become overleveraged over a period of time, due to restructuring and additional funding.

One needs to remember that borrowers in the agri or MSME segments are also less resilient, have very little fallback and would take a long time to recover from a stress situation.

While ticket size of these loans is far lower than under corporate loans, a singular event in a particular State or segment can have a cascading effect. Demonetisation, dealing a sharp blow to MFIs and small finance banks, is a case in point.

What began as a cash-crunch problem ended up distorting group repayment behaviour, thanks to all sorts of political interventions and games.

MSME restructuring

The bigger worry is the FM’s suggestion that no MSME stressed loan be classified as an NPA until March 31, 2020. In January, the RBI had allowed a one-time restructuring of existing loans to MSMEs (exposure not exceeding ☐25 crore). The FM’s statement would imply that banks should follow the RBI’s circular to ensure that MSME accounts are restructured and not declared an NPA. But there are already concerns being raised over the lack of proper due diligence and prudent restructuring under this forbearance. Also, such adhoc regulatory dispensation can destroy credit culture, as in the case of agriculture loans following the large scale loan waivers by various State governments.

Above all, the government should not forget that it was the earlier regulatory forbearance in 2008-09 in the form of restructured loans that had cost banks heavily. While the RBI closed the restructuring window by fiscal 2015, the RBI's asset quality review in December 2015 brought to light the blatant attempt by banks to sweep the mess under the carpet in the guise of restructured loans. The RBI had again sought to flush out the rot in banks' books, by withdrawing various restructuring schemes — CDR, SDR, S4A or 5/25. Over the past three years, the ***swachh*** bank mission has led to nearly ☐2.5 lakh crore of bad loans being added by just PSU Banks — that have reported two consecutive years of huge losses.

It has been disturbing enough that banks have had to carry their legacy corporate bad loans this far. Another leg of NPA crisis led by retail, MSME and agriculture loans can be disastrous. It is time the government — the eternal benefactor of capital-starved PSU banks — learnt from past lessons.

Economic Offences Wing registers FIR against LVB directors on Religare Finvest's complaint

Our Bureau Mumbai | September 26, 2019/ BL

Lakshmi Vilas Bank (LVB) has informed the exchanges that the Economic Offences Wing, Delhi, has registered a First Information Report (FIR) under complaint for offences of cheating, criminal breach of trust by banker, criminal misappropriation and criminal conspiracy under the Indian Penal Code, 1860, against the directors of board, LVB; director, LVB, Connaught Place, New Delhi, among others.

In the stock exchange notice, LVB said the FIR is based on a complaint filed by Religare Finvest Limited (RFL) pertaining to adjustment of their deposits to the dues of RHC Holding Pvt Ltd and Ranchem Pvt Ltd. The bank said it is considering appropriate legal measures to counter the same.

IDBI Bank to sell 20 bad loans worth nearly Rs 10,000 cr

Our Bureau Mumbai | September 25, 2019

IDBI Bank has identified 20 bad loans worth nearly Rs 10,000 crore, which it plans to sell, as it tries to improve its recovery.

"IDBI Bank intends to sell its identified Non Performing Assets on Cash or Cash: SR basis to asset reconstruction companies, banks, financial institutions and NBFCs,"it said in a notice on its website.

The total value of the bad loans is Rs 9,756 crore.

The largest of these is Mumbai based JBF Petrochemical, where the outstanding is Rs 1,736 crore. This is followed by Sai Wardha Power Generation where the outstanding is Rs 1,295 crore and Lanco Amarkantak Power where the outstanding is Rs 1,077 crore.

In the notice, it has said that interested entities can put in bids by October 15. The sale of assets to ARCs/Banks/NBFCs/FIs will be on 'as is where is and as is what basis' and without recourse to IDBI Bank,"it said.

Meanwhile, in a separate notice, IDBI Bank said it plans to sell 28.15,683 lakh shares, representing 0.57 per cent of the paid up equity share capital in National Stock Exchange India Ltd.

Life Insurance Corporation of India now has a majority stake in IDBI Bank. The lender had reported net loss of Rs 3,800 crore for the first quarter of this fiscal.

On Wednesday, IDBI Bank scrip closed at a gain of 7.91 per cent at Rs 36.85 apiece on BSE.

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