AIBEA's Banking News

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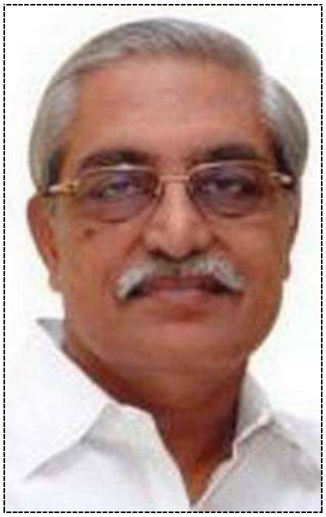
NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Expedite employee representative appointment in public sector bank boards: AIBEA to FM

K.R.Srivats | October 15, 2019 BUSINESSLINE



C.H. Venkatachalam, General Secretary, AIBEA

The All India Bank Employees' Association (AIBEA), the largest trade union of workmen employees in the banking sector, has urged the Finance Minister Nirmala Sitharaman to expedite the appointments of employee representative directors in Public Sector Banks Boards.

The posts of employee and officer representative directors have been vacant in all the banks for the past five years and the appointments have to be expedited to dispel the apprehension among bank employees that Government is avoiding to have the employee representative on the Board, C.H. Venkatachalam, General Secretary, AIBEA said in a letter to the Finance Minister.

Under the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970/1980, a representative of the trade union of workmen employee and a representative of officers are appointed as Directors on the Boards of all Public Sector Banks.

Venkatachalam said that the panel of names have been submitted to the bank managements and Government, but for reasons not known to AIBEA, the appointments have not taken place and all these posts remain vacant and unfilled.

“Some of the employees whose names were submitted in the panel had since retired, and hence we have submitted revised panel also. Even after that, the appointments are kept pending”, Venkatachalam said.

AITUC extends support, solidarity to Bank Strike on Oct 22

Hyderabad, Oct 17 (UNI)

All India Trade Union Congress (AITUC) has extended its support and solidarity with the All India Bank Strike called by All India Bank Employees Association (AIBEA) and Bank Employees Federation of India (BEFI) on October 22.

AITUC General Secretary Amarjeet Kaur said ''We note that All India Bank Employees Association and Bank Employees Federation of India have jointly given the call for All India Bank Strike on 22nd October, 2019 against the recent decision of the Central Government to merge 10 public sector banks into 4 Banks thus, deciding to close down 6 important nationalised Banks''.

AIBEA and BEFI decided to go on strike from 6.00 am on October 22 to 6.00 am on October 23 on demands like put a halt to Merger of Banks-- Stop Banking Reforms--- Ensure recovery of bad loans, take stringent action on defaulters---Stop harassing customers with penal charges and do not increase in service charges, Increase rate on Deposits--- Stop attacks on Jobs and Jobs Security---and adequate recruitments in all the banks.

About 3.5 lakh employees in AIBEA and BEFI will take part in the strike.

Mrs Kaur said the Government's decision is most unfortunate and totally unwarranted. All the Banks who now are facing closures namely Andhra Bank, Allahabad Bank Syndicate Bank, Corporation Bank, United Bank of India and Oriental Bank of Commerce are well performing Banks and have been greatly contributing for our nation's economic development in their respective geographical areas.

All these Banks have a long history behind them and all of them have grown into big banks over the years. At a time, when Government is talking of including every citizen into banking access through scheme like Jan Dhan Yojana, etc., announcing the merger of 10 Banks will result in large scale closure of branches and deprive people of banking service is a most retrograde move, she added.

The AITUC General Secretary said, so far there is no evidence that previous mergers in SBI, Bank of Baroda, etc. have yielded any positive results. ''This is not the time to experiment with merger of banks when Banks are required to play a crucial role in lifting the economy out of its present serious mess and crisis''.

In fact, the entire attention of Banks will now shift from efforts to recover the huge bad loans to tacking the problems arising out of mergers. This appears to be a deliberate move, since Government is unable to take any serious measures to recover the bad loans from the corporate defaulters except through huge write off, haircuts and concessions, Mrs Kaur added.

Stating that Bank mergers are ''ill-timed'' and ''ill-motivated'', she said we appreciate the timely struggle of AIBEA and BEFI and support their All India Strike on October 22.

This struggle needs to be further continued and intensified as mergers are a prelude to privatise the Banks, Mrs Kaur maintained

State of Indian economy: Q2 GDP could be worse

The Financial Express | October 15, 2019

In which case, even a 6% FY20 growth could be at risk

The offtake of loans by individuals, too, is slowing because incomes are growing slowly and consumer confidence is low

Given the sluggish loan growth, contracting four-wheeler sales and slowing volume momentum in a host of other sectors, it is not altogether surprising that factory output contracted by 1.1% year-on-year (y-o-y) in August. The deterioration was particularly marked in segments such as capital goods, which shrank 21% y-o-y on the back of a 7.2% y-o-y fall in July, and durables, which fell 9.1% y-o-y, reflecting the very anaemic demand partly arising from weak credit flows to many sectors of the economy. As has been pointed out, despite excess liquidity to the tune of Rs.200,000 crore in the banking system—the system has been in a surplus for close to five months now—banks are being ultra-cautious while sanctioning loans. They are not to be blamed.

For one, much of corporate India is still fairly leveraged, and in the current difficult environment, cash flows aren't improving. Moreover, the quality of corporate balance sheets remains worrying as seen from the daily downgrades by ratings agencies. Indeed, the second NPA cycle has started, and could get exacerbated by weakening commodity cycles, the global slowdown, and also the unhelpful policies relating to the ownership and operatorship of infrastructure assets; as experts have pointed out the IRRs for some infra projects are unremunerative given that prices are below market levels. The fact that state governments have been dishonouring contracts—as has happened with some renewable energy projects—will also hurt banks' portfolios.

The offtake of loans by individuals, too, is slowing because incomes are growing slowly and consumer confidence is low. It is precisely because companies don't see the need to produce when demand isn't picking up that manufacturing is contracting—the August data of a negative 1.2% was the worst in five years. It is hard to see greenfield investments by the private sector picking up meaningfully in the next couple of years, and, as a share of GDP, it could actually fall. That is because capacity utilisation is around 73%, and distressed assets are being bought at attractive valuations via the IBC route. Very few new projects are being announced.

However, existing projects that are stressed or stalled—like in the residential real estate sector—can be revived with relatively small incremental investments. That could then help fuel demand for a range of products and, at the same time, help banks recover their loans. Over a period of time, household savings should move up, and can be used to fund investments.Unless some sectors get an immediate boost, it is hard to see the economy re-bounding. With high frequency data at their lowest levels since 2008, growth in Q2FY20 could well be lower than the 5% y-o-y clocked in Q1FY20. That, then, increases the risk of the economy growing at below 6% in 2019-20.

PMC crisis: Commercial banks subject to greater regulatory rigors of RBI

There have been several Committees, which have attempted to streamline the functions and working of cooperative banks in India

Generally commercial and cooperative banks are seen to be similarly placed but there are several important differences

October 15, 2019 | By Manoranjan

FINANCIAL EXPRESS
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Of late, banks in India have been in the news for all the wrong reasons—NPAs, continued deterioration in asset quality, grossly inadequate capital levels, etc.

While the PMC is small compared to the size and reach of most commercial banks, it is still the fifth largest cooperative bank. As of FY19 it had 137 branches, deposits of Rs 11,617 crore, advances of Rs 8,383 crore, NPAs of 4%, capital adequacy of 12% and a net profit of Rs 99.69 crore compared to Rs 100.90 crore a year ago. This made PMC seem like a relatively well-run co-operative bank.

After the whistle blower's September 17, 2019 letter, the MD and CEO Joy Thomas wrote a detailed five-page confession to RBI. RBI responding "swiftly and promptly" curbed all activities of PMC Bank and appointed an administrator for six months. It was found that PMC Bank's exposure to the bankrupt Housing Development Infrastructure Ltd (HDIL) was Rs 6,226 crore—four times the regulatory cap with the single exposure limit for banks being 15% of capital fund. It was 73% of the banks entire loan book.

In terms of RBI's sweeping restrictions, curbs were placed on fresh lending, accepting fresh deposits and investments. Customers withdrawal was initially capped at Rs 1,000 (later raised first to Rs 10,000 and again to Rs 25,000) from the Bank, irrespective of the type, total balance or the number of accounts. In the event of emergencies like hospitalisation, etc., the RBI may grant a case-by-case exception, though it is not certain to come through. RBI also sacked the Board and suspended the MD and CEO.

PMC created over 21,000 dummy accounts (mostly of dead account holders), did creative banking and showed large number of project loans and, worst, deliberately delayed computerisation. The FIR shows the modus operandi. HDIL promoters allegedly colluded with the bank management to draw loans from the Bank's Bhandup branch.

Further, PMC Bank had also reportedly granted a personal loan of Rs 96.5 crore to HDIL's promoter Sarang Wadhawan. These aspects forced the bank to go down under.

Generally commercial and cooperative banks are seen to be similarly placed but there are several important differences. Considered in a proper historical and comparative perspective, commercial banks vis-à-vis cooperative banks are subject to greater regulatory rigors of RBI; generally, the levels of manpower and operational efficiency are discernibly higher and they are also required to list on the stock exchanges, thereby subjecting them to market discipline.

The genesis of cooperatives can be traced to the formation of the Fenwick Society on March 14, 1761 in Scotland. Cooperative Banks in India have a long history of over 110 years in India. But unfortunately, they seem to be failing more often. The Madhavpura Mercantile Cooperative Bank failure of 2001 because of Ketan Parekh is a case in point.

Historically, the dual control of the state government and RBI has often been identified as an important reason for the mess. No wonder, the number of cooperative banks have steadily declined from 1,926 in 2004 to 1,551 in 2018.

There have been several Committees, which have attempted to streamline the functions and working of cooperative banks in India, e.g., Satish Marathe Committee (1991), Madhav Rao Committee (1999), N.H. Vishwanathan Working Group on augmenting capital of urban cooperative banks (2005), R Gandhi Working Group on information technology systems in urban cooperative banks (2007-08), VS Das Group on an umbrella organisation for the urban cooperative banking sector (2009), YH Malegam Committee on licensing of new urban cooperative banks (2011), R Gandhi Committee (2015). The R Gandhi Committee recommended, inter-alia, an accelerated winding up/merger process, effective regulation of such banks and meeting the capital needs of urban cooperative banks in a greater measure.

Besides, with deposit insurance limited to Rs 1 lakh per bank account, India is among the countries with lowest protection to depositors in the unlikely event of bank failure. While India's DICGC's scheme covers 70% of bank deposits, accounts with less than Rs 1 lakh together account for only about 8% of cumulative bank accounts.

Issues of contagion effect, short-termism as against sustained growth, corporate governance and conflict of interest also need to be carefully considered for a comprehensive assessment and perspective. RBI's measures like revamping its regulatory and supervisory structure by creating a specialised cadre of supervisory officers, strengthening its analytical vertical and enhancing onsite supervision, market intelligence and statutory auditor roles for supervision and creating an institutional mechanism for sharing of fraud-related information among urban cooperative banks (UCBs) like Credit Fraud Registry (CFR) for commercial banks are contextually significant.

In the ultimate analysis, given the interplay between cooperative banks and the socio-political system, the issue boils down to greater political will to address the fault-lines in a coordinated and concerted manner with a sense of urgency.

BPCL disinvestment to be cleared in 2 weeks; Cabinet puts stake sale in 5 PSUs on fast track

Prasanta Sahu | New Delhi | October 15, 2019

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The threshold of minimum government holding for PSUs to be in ETF baskets is 52%. Bharat-22 ETF is a diversified index of 22 stocks, largely comprising PSU stocks

Once the Cabinet gives its nod to bring down government holding in PSUs to below 51%, there would be bigger Bharat-22 ETF tranches, a senior official said

The Union Cabinet will approve the strategic disinvestment of five PSUs, including Bharat Petroleum (BPCL), as well as a proposal to bring down direct government holding in PSUs to below 51%, in the next two weeks. This would serve as a booster for efforts to garner the bulk of the budgeted Rs.1.05-lakh-crore disinvestment receipts from privatisation and exchange traded funds (ETFs).

While strategic disinvestment and ETFs would contribute the most to achieve the disinvestment target this year, mobilisations from initial public offers (IPOs), buybacks, offer for sales and asset monetisation would be minimal this year, official sources said.

“Minimum five months will be required to execute a strategic disinvestment,” a senior official said, referring to the tight situation as seven months of this year are about to get over by October-end. Sale of the government’s 53.29% stake in BPCL could alone fetch at least Rs.56,200 crore (at current market prices), or 53.5% of the disinvestment revenue target for this year. The value of the government’s stake in BPCL, Shipping Corp (63.75%), ConCor (30%), NEEPCO (100%) and THDC (75%) could be about Rs.84,000 crore at current prices.

With no time to lose to garner non-tax revenues at a time when tax revenues are behind the curve, the department of investment and public asset management (DIPAM) on Friday invited proposals from asset valuers, transaction advisors and legal advisers to help the government in strategic disinvestment of these five companies. So far this year, the Centre has mobilised Rs.16,725 crore, 86% of which were contributed by Bharat-22 ETF and CPSE ETF.

Once the Cabinet gives its nod to bring down government holding in PSUs to below 51%, there would be bigger Bharat-22 ETF tranches, another senior official said. Currently, there is limited headroom to mobilise disinvestment revenue through Bharat-22 ETF because the government stakes are in the 52-53% range in many large PSUs such as IOC, Nalco, GAIL and Engineers India. The threshold of minimum government holding for PSUs to be in ETF baskets is 52%. Bharat-22 ETF is a diversified index of 22 stocks, largely comprising PSU stocks.

A record Rs.45,080 crore via the two extant ETFs — Rs.26,350 crore from CPSE ETF and Rs.18,730 crore from Bharat-22 ETF — helped the Centre mobilise 53% of the disinvestment receipts in FY19. It could try to repeat the feat in FY20 as well. Among other routes, the Centre could sell 15-25% stake through IPOs of Indian Railway Finance, RailTel, WAPCOS, Telecommunications Consultants and FCI Aravali Gypsum and Minerals. However, the IPOs' contribution to receipts won't be more than Rs.3,000-4,000 crore this year.

Economics Nobel rewards research that tackled poverty

October 14, 2019
BusinessLine

The Nobel committee said that the winners have helped break down complex dimensions of poverty into simpler micro-level problems

By conferring the Nobel prize for economics on poverty researchers Abhijit Banerjee, Esther Duflo and Michael Kremer, the Nobel committee has once again sent out a message that economics must address pressing concerns of the people rather than merely confine itself to arcane pursuits, such as the intricacies of derivatives trading. In its citation, the Nobel committee has said that the winners of 2019 have helped break down the complex dimensions of poverty into simpler micro-level problems, such as education for girls and sanitation, for which specific policy solutions can be more easily tailored for a particular region. The Academy observes that as a result of micro-level studies, it was possible in India to tailor remedial education programmes that benefited five million children. Banerjee, who has created the Abdul Jameel Poverty Action Lab (J-PAL) in MIT, has worked with Duflo and Kremer in creating a methodology of 'randomised control trials' (RCTs) to assess the performance and potential of public policy. J-PAL has carried out over 500 RCTs in 10 countries, including India, which includes an audit of pollution control in Gujarat, MGNREGA schemes and numerous welfare schemes in Tamil Nadu. The studies in Tamil Nadu in partnership with the State government pertain to disease control, improving breastfeeding outcomes and dealing with anaemia in children. Banerjee has notably been in the news for actively backing the Congress' Nyuntam Aay Yojana, which promised to provide an estimated Rs.6,000 a month to 25 crore people estimated to be in need of income support. He has worked with French economist Thomas Piketty in pointing out the extent of wealth inequality in India, and in the context of NYAY observing that there was immense scope to raise money through taxes to fund such schemes. By focussing on poverty and the nature of policy instruments required to address it, Banerjee ***et al*** share the concerns of earlier Nobel prize winners who have focussed on poverty, such as Amartya Sen (1998) and Angus Deaton (2015).

But the similarities end here. While RCTs are based on the experimental methods of science, peers including Deaton have questioned this approach. Whether a problem of economics can be delinked from politics, history and culture is a moot point. Sen adopts an institutional approach, as does Deaton. Besides, it is possible to devise effective welfare schemes, such as Kudumbashree in Kerala, without resorting to RCT, if the political institutions are responsive to the needs of the people. Governance outcomes in India are superior where democratic and social institutions are more evolved.

Yet, RCTs are an effective evaluation tool and can work as a micro-guide in guiding the direction and finances of welfare policies. Governments of all political hues should take an objective view on the work of this year's Nobel prize winners to optimise gains for their citizens.

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