AIBEA's Banking News

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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

# Parliament passes insolvency and bankruptcy bill

***The objective of the amendments to IBC 2016 was to provide resolution to small bankrupt firms and, at the same time, take stringent action against big bankrupt businesses***

***The insolvency amendment bill replaced the ordinance that was approved by the Union cabinet in May***

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live mint

New Delhi: The amendments to Insolvency and Bankruptcy Code (IBC) 2016, allowing home buyers to be treated as financial creditors and seeking to set up a special dispensation for small sector enterprises, was passed by Parliament on Friday.

The bill, which was passed in Lok Sabha on 31 July, was approved in the Rajya Sabha today by voice vote. The legislation seeks to replace the 6 June ordinance that sought to put these amendments into force to aid quick resolution of several bankrupt firms.

Replying to the debate on the Insolvency and Bankruptcy Code (Second amendment) 2018 in the Upper House, finance minister Piyush Goyal said its objective was to provide resolution to small bankrupt firms and, at the same time, take stringent action against big bankrupt businesses.

He said the bill aims to ensure that all cases are led to resolution instead of liquidation. "We want faster resolution of cases. ....We don't want liquidation. Insolvency will not help the country. Assets worth crores should put to use," he said.

The Minister said the Insolvency Law Committee, which was set up in November 2017, had submitted the report on 26 May this year and every recommendations of the panel has been accepted and incorporated in the amendments.

On the approval of a resolution plan, the Minister said the report said it should be approved by a panel of creditors by a vote of not less than 66% of the voting share of financial creditors.

For routine decisions, it should be 51% vote requirement. Goyal said the government is trying to increase the strength of NCLAT to address the pendency of cases. "The number of courts, judicial members and technical members are being increased," he said.

Besides, a group has been set up to see speedy resolution of about 40,000 cases in NCLAT that are simple in nature and can be resolved by imposing non-discretionary penalty, he added.

On a member's query regarding less recovery of assets through the resolution process, Goyal said "there is a good recovery. ...If you look at the cases so far, 32 cases are resolved through resolution and up to 55% have been recovered."

Earlier, it used to take an average of three years to resolve a matter, it has now come down to one year. Earlier the cost of resolution used be higher at 9%, now it has come down to one per cent, he said.

He also stated that the NCLAT was an independent body and the government does not interfere in its functioning. The minister said it is not that in all cases, the promoters are wilful defaulters. Wherever promoters are wilful defaulters, the action should be taken strictly.

"Now there is fear among big borrowers that they have to repay their loans. Earlier, there was a responsibility to repay loans was on small borrowers. Big players used think it is not our problem, banks have to recover the loan. This equation has changed today," he noted.

Earlier, Minister of State for Finance P.P. Chaudhary termed the bill as a game changer for the economy. Opposing the bill, **D Raja (CPI)** said that **frequent changes to the law is being done to help defaulters** and the government wants to bail out the defaulters.

**In the Bhushan Steel case, he alleged that the banks lost Rs.21,000 crore but a corporate house gained this amount**. He sought to know why the government has a "soft corner towards the corporates." **"The government should bail out the poor and not the corporates.** The voting requirement is reduced to 66% from 75% to help one corporate," he alleged.

Neeraj Shekhar (SP), S R Balasubramaniyan (AIADMK), Kahkashan Perween (JD-U), P Battacharya (Congress) were among others who supported the bill, but expressed concern over the government taking the ordinance route to amend various laws.

Supporting the bill, Jairam Ramesh (Congress) said that in the last two years out of 700 cases admitted under the Insolvency and Bankruptcy code only 3% have been resolved, 12% have gone into liquidation and 10% have been closed.

"In other words out of 700 cases over 500 cases are active. Now the court says within 270 days the process must be complete. So my first question to the minister is high proposition of cases which are ongoing," Ramesh said.

He said "We have passed a law which says that the whole process should be completed in 270 days. But over 75% of the cases going through some process or the other. I would urge the minister to pay close attention to it."

Ramesh said the recovery rate for banks stood at about 40%. "Now this 40% is also an optimistic figure this includes recovery in steel industry which is now on the recovery path."

He said he suspected that the recovery through this code would not be more than 30%. "This is not a very healthy figure and I urge the Finance Minister to pay close attention to the fact that the recovery is good in the steel sector. If you leave that aside, the recovery rates are not very encouraging," Ramesh said.

Ramesh also pointed out that on 12 February, the RBI had issued a circular on stressed assets and that the Finance Ministry has challenged it in the Allahabad High Court and sought to know the government's position regarding the circular.

"This is extraordinary situation. RBI issuing a circular which is being challenged by the Finance Ministry. I would like the government to clarify the exact position on this circular," the Congress leader said, stressing that the wilful defaulters should not go scot-free. Neeraj Shekhar (SP) said what was the need for the government to bring in an ordinance in June when the House was scheduled to meet in July. Such action raises suspicion about government's motives, he added.

# SBI clarifies Jet is a standard account

Manojit Saha
MUMBAI, AUGUST 11, 2018
THE HINDU

State Bank of India (SBI) has clarified that loans extended to Jet Airways is a standard as repayments are regular, clearing the confusion that started during the earnings teleconference in which the bank's management said the account is in the special mention accounts (SMA) category.

During the teleconference SBI management said the account is in the 'watch list' and either in the SMA 1 or SMA 2 category, without disclosing further details.

If interest or principal repayment is due for more than 30 days, the loans are classified as SMA 1 category and if overdue for over 60 days (but less than 90 days), it is in the SMA 2 category. After 90 days of overdue, a loan becomes sub-standard - the first category on non-performing asset.

Following SBI's comments, Jet issued a statement saying it's account is standard.

"We are regular in all our payment obligations to all our banks and statutory dues including PF obligations. Our account with all the banks as on date is "Standard". Information of Jet Airways being placed in the SMA1 and SMA2 category is incorrect," the airline said.

When ***The Hindu*** contacted a senior SBI official asking about Jet's statement, the official said, there was a miscommunication earlier and the account is indeed standard and not in the special mention category.

# HDFC Bank seeks clarification on exclusive security, yet to sign ICA

Manojit Saha
MUMBAI, AUGUST 09, 2018

THE HINDU

***Asks IBA for solution in the event of lenders deciding to liquidate all securities***

HDFC Bank, a leading private sector lender in the country, is yet to sign the Inter-Creditor Agreement (ICA) — an understanding among lenders to resolve stressed assets quickly.

As many as 29 lenders have signed the ICA, which was framed under the aegis of the Indian Banks' Association last month, following the Sunil Mehta Committee's recommendation.

The ICA is applicable to all corporate borrowers who have availed loans for an amount of Rs.50 crore or more under consortium lending/multiple bankingarrangements.

The lender with the highest exposure to a stressed borrower will be authorised to formulate the resolution plan, which will be presented to all lenders for their approval.

HDFC Bank, one of the large lenders, which is yet to sign the agreement, has sought a clarification from the Indian Banks' Association (IBA) on 'exclusive security', wherein, if a security of a borrower is exclusively pledged to one particular bank in a consortium, then what will be the solution in case lenders decide to liquidate all the securities that are pledged.

According to banking industry sources, the lender is awaiting the clarification before signing the agreement.

"IBA is looking into the matter and the issue should be resolved shortly," a banker said, adding that by next week a few other lenders, including HDFC Bank, were likely to come on board.

**Other banks**

IndusInd Bank is another private sector lender which is yet to sign the agreement. Among public sector banks, Indian Bank is yet to sign the agreement. The primary objective of the agreement is to focus on the Rs.50 crore-Rs.500 crore and the Rs.500 crore-Rs.2,000 crore categories.

It is estimated that there are Rs.2.1 lakh crore of stressed assets in the Rs.50 crore to Rs.500 crore category.

The total stress in public sector banks is estimated at Rs.10.6 lakh crore, as on March 31, 2018.

# SBI posts Rs.4,876-cr net loss in June quarter

***Hit by jump in provisions and staff expenses; expects turnaround from Dec quarter***

OUR BUREAU | MUMBAI, AUGUST 10

BusinessLine

State Bank of India reported a net loss of Rs.4,876 crore in the first quarter ended June 30, 2018, as provisions, including towards investment depreciation and staff expenses, soared. The bank had posted a net profit of Rs.2,006 crore in the year-ago period.


The net loss was, however, lower than the Rs.7,718-crore loss in the preceding quarter thanks to a Rs.2,379-crore write-back in income-tax.

While the loan-loss provisions were up 7.53 per cent y-o-y to Rs.13,038 crore, fresh slippages at the country's largest lender were down to Rs.9,984 crore during the quarter against Rs.33,670 crore in the preceding quarter. Corporate slippages (including from the textiles, power, roads & EPC sectors) were atRs.3,704 crore while the balance came from the retail, small and medium enterprise and agriculture sectors.

Gross NPAs declined by Rs.10,587 crore during the quarter to Rs.2,12,840 crore. As at June-end 2018, GNPAs edged down to 10.69 per cent of gross advances (from 10.91 per cent as at March-end 2018). Net NPAs declined to 5.29 per cent of the net advances (from 5.73 per cent as at March-end 2018).

Chairman Rajnish Kumar said the requirement for provisioning on account of the legacy NPA accounts had been largely taken care of. The bank expects to post a profit in the December and March quarters.

"...All the provisioning, or what I call all the pains, all the blows, we are taking upfront... so that future earnings are protected.

"Some of the power assets (seven of them) we are trying to resolve in this quarter. So, if that happens, the provisioning gets advanced... If we resolve them, then whatever is the gap between the provision held and the estimated recovery, that will need to be provided in the September quarter," he said.

The net interest income (the difference between the interest earned and paid) was up 24 per cent year-on-year at Rs.21,798 crore (Rs.17,606 crore). The non-interest income was down 16.57 per cent y-o-y at Rs.6,679 crore (Rs.8,006 crore). This was mainly due to a loss of Rs.1,264 crore on sale of investments (againstRs.1,770 crore profit under the same head) and a lower forex income of Rs.427 crore (Rs.667 crore).

The net interest margin improved to 2.80 per cent in the June 2018 quarter against 2.50 per cent in the preceding quarter.

SBI attributed the loss to lower trading income and significant mark-to-market (MTM) losses due to hardening of bond yields and higher provisioning on account of wage revision and enhancement in the gratuity ceiling.

The bank said it has not availed itself of the benefit of the RBI dispensation on amortisation of MTM loss.

Staff expenses increased by 26 per cent y-o-y to Rs.9,708 crore during the quarter mainly on account of provision for wage revision and enhancement in gratuity ceiling. The provision for investment depreciation shot up to Rs.7,098 crore (against a write-back of Rs.755 crore in the year-ago quarter).

**Advances up**

Domestic advances registered 7.21 per cent y-o-y growth to Rs.17,23,443 crore. Gross advances, including overseas loans, were up 5.49 per cent y-o-y toRs.19,90,172 crore.

"Credit growth is still largely coming from retail. But we have a fairly robust pipeline as far as corporate loan demand is concerned," said Kumar.

Deposits increased by 5.58 per cent y-o-y to Rs.27,47,813 crore.

# Fortis brothers to submit bank account details to HC

***Court grills them for details of bank accounts, transactions after April 2016, and properties***

MAITRI PORECHA | NEW DELHI, AUGUST 10

THE HINDU BusinessLine

Coming down strongly on Malvinder Singh and Shivinder Singh in the ongoing case between Fortis Group and Japan's Daiichi Sankyo, the Delhi High Court instructed the brothers to give details of all their bank accounts and transactions since April 2016. It also asked them not to carry out any transactions, including sale of properties.

Pharma major Daiichi Sankyo has filed an interlocutory application in the High Court to recover money to the tune of Rs.3,500 crore with interest, and has asked for a stay on the ongoing Fortis Healthcare Ltd's deal with Malaysian-based IHH group, which will infuse Rs.4,000 crore in the former.

During their first appearance before the Court, Shivinder and his elder brother Malvinder maintained a sombre expression throughout the hearing. The two were questioned for about 45 minutes by Justice Rajiv Shakdher. The questions ranged from the bank accounts they held (in India and abroad), the assets sold by them after April 2016, and properties currently in their possession.

Shivinder said he had one bank account in Singapore and four accounts in India, but had no idea about the credit balance in the accounts. He said, "I do not have properties in India or abroad. We had a joint property at Rajesh Pilot Marg, New Delhi, which we sold at Rs.185 crore, which was charged to Indiabulls. Money from the sale went straight to the bank."

Malvinder said he owns an apartment in Singapore, which had been bought on a 40-year loan from DBS Bank, on which he was until lately paying EMIs. Now that he has no money to pay the EMIs, he was looking to sell the apartment, he added. Justice Shakdher restrained him from selling the apartment without the Court's permission. The Court also said it has to be informed if a purchaser is found.

Malvinder also revealed that he had gifted sculpture and paintings worth Rs.7.59 crore to his daughter; to that, the Court asked if the gift had been registered and if there were any documents to prove this.

# With Rs. 80,675 crore in its account, Govt plans to launch Jan Dhan 2.0

***But bankers say more needs to be done to widen the scheme's reach and impact***

G NAGA SRIDHAR | HYDERABAD, AUGUST 10

THE HINDU BusinessLine

As it completes four years of existence, Pradhan Mantri Jan Dhan Yojana (PMJDY) is all set for a further push. The financial inclusion programme of the Government of India was launched on August 15, 2014, and now has become a vehicle for many government schemes with 32.25-crore beneficiaries.

As on August 1, 2018, the total balance in Jan Dhan accounts stood at Rs.80,675 crore, of which public sector banks have deposits worth Rs.64,388 crore with them.

**Women beneficiaries**

Of the total beneficiaries, 24.7 crore have been issued RuPay cards by the National Payments Corporation of India (NPCI). A notable aspect is the large percentage of women beneficiaries at 17 crore.

The Centre is likely to announce Jan Dhan 2.0 soon to address several issues, improvise and expand both its reach and impact.

"The government now wants us to reach out to 10 to 12 crore unbanked individuals to bring them into the gamut of banking through PMJDY accounts. However, I am not sure if this could be done speedily, given the issues being faced by banks now due to the high cost involved," the executive director of a public sector bank told ***BusinessLine.***

However, according to bankers, introducing banking to more than 32 crore people is an achievement. But there is more to be done. "While this is a big number, most of them have not been brought under the banking credit system, which needs to be done," said CVR Rajendran, Managing Director and CEO, Catholic Syrian Bank.

Basic bank accounts for the poor under the scheme had also become vital for the implementation of low-cost insurance schemes under Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Pradhan Mantri Suraksha Bima Yojana (PMSBY).

An operative bank account is a must for these schemes as premium is automatically deducted from them. As less than six crore people have enrolled for these schemes since their launch in 2015, any ramp-up will also depend on Jan Dhan, say bankers.

# Elevated additions to bad loans and large watch-list spell trouble for SBI

***Gross addition of Rs.14,300 cr to its outstanding bad loan book of over Rs.2-lakh cr is worrisome***

BL RESEARCH BUREAU | Radhika Merwin

THE HINDU BusinessLine

For SBI, its merger with its associate banks has been accentuating the PSB's bad loan troubles since the June quarter of last year. But sadly, not much appears to have changed on the asset quality front over the past four quarters.

The bank reported huge slippages during FY18 when the RBI's February circular on stressed assets further accelerated the NPA recognition exercise. But despite such steep slippages, SBI is not out of the woods yet.

Still elevated additions to bad loans, a large watch-list, and weak core performance in the latest June quarter, indicate that recovery in earnings for SBI is likely to be long drawn with not much respite in the current fiscal.

After the one-time impact of the RBI's circular in the March quarter, when it reported huge slippages to the tune of Rs.33,600 crore, the bank reported lower slippages of Rs.9,984 crore in the latest June quarter.

While the optically lower slippage figure appeased the market initially, subsequent disclosure of actual additions to bad loans put an end to the euphoria. For one, aside from the fresh slippages, SBI also reported increase in outstanding NPA accounts to the tune of Rs.4,300 crore.

Given that the bank reported an increase in outstanding NPAs of about Rs.5,500 crore in the whole of FY18, the June quarter's number is far from comforting.

Hence, barring quarters when there were one-off huge additions to bad loans – such as the RBI's asset quality review in December 2015, SBI's merger with associate banks last April and the RBI's new framework for stressed assets this February – the accretion of Rs.14,300 crore (fresh slippages plus increase in outstanding NPAs) in the June quarter is at an elevated level, going by the past trend.

Also, the bank still has around Rs.24,600 crore accounts under watch-list – this includes all corporate SMA2 (where payments are overdue by 61-90 days) and stressed SMA1 accounts (overdue by 31-60 days). This large stressed assets pool remains a key cause for concern in the coming quarters.

The biggest joker in the pack is the RBI's February diktat that requires banks to report even one-day defaults and draw up resolution plans within 180 days, failing which banks will have to refer the case for insolvency under IBC. The deadline for the resolution for the first set of such defaulting cases is drawing near – end of August.

For banks such as SBI that are saddled with large stressed power assets that require longer time to resolve, the extent of impact is still uncertain. Of SBI's watchlist as of June 2018, about Rs.10,000 crore pertains to the power sector.

Hence, there could be more pain ahead for the largest lender. What is also not comforting is that of the slippages this quarter, only Rs.3,700 crore pertains to the corporate sector. The remaining – Rs.6,200 crore – has come from other segments such as agri and retail. Non-corporate slippages in the latest June quarter appear to be the highest (barring the post-merger impact in June quarter last year) in the last two years.

**Weak core performance**

SBI has also been losing market share to its private peers over the past year. Domestic advances have grown by a tepid 7 per cent Y-o-Y in the June quarter. SBI's 24 per cent growth in net interest income in the June quarter has been aided by a one-off recovery and, hence, the sustainability of this trend remains uncertain.

# PSB privatisation will take care of governance issues: IMF report

OUR BUREAU | MUMBAI, AUGUST 9

THE HINDU BusinessLine

More aggressive disinvestment and privatisation of public sector banks (PSBs) would address some of the structural issues in governance, such as incentives and efficiency of these banks, according to the International Monetary Fund.

According to the staff report prepared by the IMF, the government should come up with a comprehensive plan to improve governance, internal controls and operations of PSBs, and consider a more rapid withdrawal of public ownership.

Flagging the recent large fraud at a PSB (read Punjab National Bank), the report said this highlights the weaknesses in the financial sector, and underscores the need for the government to take further steps to improve the governance and operations of PSBs.

PSB governance reform and reducing the government's footprint in the banking system would play an important role in levelling the playing field, thereby promoting competition and efficiency.

**Banking roadmap**

Referring to the government's January 2018 Banking Reforms Roadmap, which indicates that the recapitalisation will be contingent on measures to strengthen governance and operations, the report said the plans remain vague. The IMF staff recommended that the authorities pursue more far-reaching governance reforms by removing the RBI representatives from banks' boards and defining better the terms of reference for board members, including the Ministry of Finance representative, to strengthen the quality and independence of bank boards.

"Important steps have been taken to improve the recognition of non-performing assets (NPAs) and recapitalise public sector banks (PSBs) but more needs to be done.

"The IBC has the potential to improve significantly NPA resolution and corporate debtors' repayment discipline," said the report.

In addition to speeding up NPA resolution and completing PSB recapitalisation, the report urged the authorities to further strengthen governance and accelerate implementation as part of a broader package of financial reforms.

The reforms suggested include improving bank governance, reducing the role of the public sector in the financial system, and enhancing bank lending capacity and practices, thereby reducing the fiscal contingency risks arising from PSBs in the future.

| EVERDAY IS AIBEA DAY | AIBEA THIS DAY – 13 AUGUST |
|---|---|
| **1964** | **Government intervenes through Tripartite meetings on our wage demands.** |
| **1970** | **Com. K K Mundal, P L Syal and Sushil Ghosh visit USSR on behalf of AIBEA.** |
| **1999** | **Emergency Central Committee meeting of AIBEA at Hyderabad on 7th Bipartite strategies.** |


# ALL INDIA BANK EMPLOYEES' ASSOCIATION

*Central Office: PRABHAT NIVAS*

*Singapore Plaza, 164, Linghi Chetty Street, Chennai*-600001

**Phone: 2535 1522 Fax: 2535 8853, 4500 2191**

**e mail ~ chv.aibea@gmail.com**

**Web: www.aibea.in**