AIBEA's Banking News

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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Banks let down by RBI and BJP's 'politics'

KUMUD DAS |

Jul 01st 2018/

NATIONAL HERALD

These are the same banks which had passed the litmus test during the global financial crisis in 2008. Then why have our banks all of a sudden started looking like institutions on shifting sand

The entire banking sector in the country is in the news for all the wrong reasons. The latest has been the arrest of the sitting and former Chairmen and Managing Directors of a Pune-based state-run lender, Bank of Maharashtra. It was preceded by the MD & CEO of the country's largest private sector bank ICICI Chanda Kochhar being asked to proceed on leave until the completion of an investigation into charges of abusing her office to benefit her husband and family.

There have been quite a few other arrests involving bankers in recent months. The former Punjab National Bank MD & CEO, Usha Ananthasubramanian, was first transferred to a much smaller state-owned lender, Allahabad Bank and then was divested of her powers following the much talked about Rs.13,000 crore bank fraud allegedly orchestrated by fugitive jeweller, Nirav Modi.

Former IDBI Bank CMD, Yogesh Agarwal was also arrested along with other senior officials of the bank in the Vijay Mallya loan default case a year ago. Bank of Baroda's executive director, KV Rama Moorthy, was shunted to a much smaller lender, United Bank of India after his name figured in a fraud which took place in Dubai. In yet another case, the CMDs of Indian Bank and IDBI were swapped. MK Jain, who has the credit of turning around Indian Bank he was heading in the past, was rewarded by the government when he was asked to head a bigger but debt-laden bank, IDBI. Recently Jain was elevated to the post of RBI's deputy governor.

The issue is what has gone wrong with the banking system of the country? These are the same banks which had passed the litmus test during the global financial crisis triggered in 2008 by the collapse of Lehman Brothers. Then why have our banks all of a sudden started looking like institutions on shifting sand or a castle of cards?

Our banks being laden with a pile of NPAs, amounting to Rs.10 trillion. To understand the issue well, one needs to take a deep dive into the affairs of the banking sector during the past few years.

Bank staff demoralised in aftermath of demonetisation

It all started with the mega launch of Pradhan Mantri Jan Dhan Yojana in the very year Prime Minister Narendra Modi assumed his office. All the state-owned banks were given huge targets of opening bank accounts so as to give a boost to the financial inclusion campaign in the country. All the bank employees were involved to make the program a success. It was followed by demonetisation which made the life of bank employees miserable. Some of them risked their lives while taking cash from one place to another in odd hours, that too without any security provided to them.

It was followed by the wild goose chase by the taxmen at the instance of the government to find out the bankers' alleged involvement in exchange of banned bank notes with the newly released currency with denominations of Rs.500 and Rs.2,000. The act of the government was nothing more than a face-saving device and divert public attention from the very fact that 99.5% of the demonetised money had come back to the system and this very fact was revealed by none else than the RBI.

On the other hand, bank employees' salary hike has been nominal, with merely 2% increase in their pay package offered by the Indian Banks' Association (IBA) in the wake of fast eroding profitability of banks, thanks to surfacing of a host of mega scams. All of this has demoralised bank employees who feel cheated by those sitting on the corridors of powers. Even in the BoM CMD's arrest, the bankers' body, IBA has alleged that the step was ill-advised and that the government has taken the bankers for a ride.Resentment among bankers has grown to such an extent that IBA met on June 21 to discuss the issue.

Bankers feel that enforcement agencies are throwing their weight around for entirely petty reasons. Moreover, they blame the government for politically motivated action which is, they feel, the main cause of the current banking woes. The Nirav Modi scam was going on for quite a few years without anyone paying any attention to it. No wonder it went undetected. By the time, the scam surfaced in the media, Nirav Modi had already fled the country and in a classic reply to CBI, he said in a mail that as he was busy with his business, he would not be able to appear before the central agency.

The government has maintained a stony silence on a series of serious allegations levelled by Congress president Rahul Gandhi. Raising concerns about conflict of interest, the Congress President had pointed out that the daughter of Arun Jaitley, former finance minister currently working as a minister without a portfolio, had worked for Nirav Modi. Concerns that the present finance minister Piyush Goyal may also have a conflict of interest since he has been the treasurer of the Bhartiya Janata Party too are yet to be addressed.

Criticising the Modi government on the Rs.13,000 crore PNB- Nirav Modi fraud, former RBI governor YV Reddy has slammed the government for its failure to prevent the fraud as an owner of the bank. He has also questioned the functioning of RBI into the matter. The fraud, he went on, is of such a magnitude that it affects the credibility of the RBI in ensuring the trust of people in banking. Reddy maintained that taxpayers who have entrusted their money to the government-owned banks should be asking the government to explain why as the custodian of their money, it failed to prevent the fraud.

Modi Govt has taken measures to strengthen the banking system

It is true that the government has taken a host of initiatives in its bid to make our banking system stronger. It is visible from the measures like setting up of Bank Board Bureau to appoint the top brass in public sector banks and bringing qualified people from outside to function as bank heads. The only disturbing fact is that these measures are yet to show any significant result. The BB has gone through almost complete revamping since then without any reason given by the government. On the issue of delayed appointment of heads of public sector banks, the current finance minister, Piyush Goyal has declared that the mandarins at the finance ministry were working hard to fill up the vacant posts of head honchos of the state-run banks shortly.

One can only hope that these measures by the government will help arrest the otherwise increasing trend of mounting bad loans with the banks. The Parliamentary Standing Committee on Finance headed by Veerappa Moily has asked the Indian Banks' Association (IBA) to prepare a road map for addressing the issue of mounting bad loans. Nor is it clear if Insolvency and Bankruptcy Code or IBC is the right solution to the ever-increasing menace of bad loans and defaults. Bankers seem to believe that the 180-day resolution plan for NPAs under the IBC was not an adequate window. Also, they have suggested the urgent need for restructuring stressed assets. According to them, referring cases for resolution under the IBC should be the last option.

Bank of Maharashtra arrests: Employee unions say state tarnished bank's name, will wear black stripes in protest

All the employee unions have formed a forum called united forum of Mahabank unions to strongly condemn and protest against the unfortunate and unwarranted decision taken by the state government.

PUNE | Jul 01, 2018 | Parth Welankar

hindustantimes

Reiterating their strong opposition to the decision taken by the state government against the Bank of Maharashtra (BoM) officials in the controversial Rs 2,043 crore DS Kulkarni Developers Limited (DSKDL) fraud case, around 200 BoM employees protested at the head office of the bank in the city.

All the employee unions have formed a forum called united forum of Mahabank unions to strongly condemn and protest against the unfortunate and unwarranted decision taken by the state government.

On Friday, Ravindra Marathe, BoM's managing director (MD), and Rajendra Gupta, executive director, were divested of charges by the bank's board of directors. The decision to withdraw the powers from the duo was taken during an emergency meeting held by the directors in the aftermath of BOM's alleged connection with the Rs 2,043 crore DSK fraud case coming to light.

The employee union has unanimously decided to observe a protest week starting from June 30 to July 5 across all the BoM branches in the country by wearing black stripes on their shirts.

Viraj Tikekar, director of BoM officers association (BOMOA), said, "Bank of Maharashtra is the financial lifeline of Maharashtra state. The recent decision is treated as a deliberate effort to tarnish the image of the bank, which is well-known for working for the common people of the country."

He added, "All the loans in the DSK cases were made through a legal process. In fact, the bank has also initiated the process of recovery. However, the state government acted in an unlawful manner when they arrested our top officials for making a commercial decision."

The behaviour of the government is wrong and totally unacceptable, added Tilekar.

The union also demanded an apology from the state government for damaging the reputation of one of the most reputed banks in the state.

Rajeev Tamane, another member of BOMOA, said, "As far as this case is concerned, where bank officials have been taken into police custody and are subjected to action, is inexplicable and has resulted into anger and anguish throughout the financial world."

Accusing the state government for its autocratic behaviour, Tamane said, "If needed, we will approach all the higher authorities, including the Reserve Bank of India and the central government."

Under all the circumstances, we will stand by all our officials in our fight against the state government, added Tamane.

The union has decided that if the board and department of financial services authorities do not take due cognisance of the feelings and protest of employees of the bank, a meeting of the united forum will be organised on July 6 at the bank's headquarters in Pune to decide the further course of action.

All the employees working in and around Pune city and representatives from all parts of the country will be attending the meeting, added Tamane.

Mehta panel submits 5-point plan to fight NPAs

No proposal to create a 'bad bank', says Piyush Goyal; AMC for loans above Rs.500 cr

OUR BUREAU | NEW DELHI, JULY 2

THE HINDU BusinessLine

The high-level committee on restructuring stressed assets and creating more value for public sector banks (PSBs) has suggested a transparent market-based solution with a focus on asset turnaround to ensure job protection and creation.

Accepting the report submitted on Monday by the committee headed by Sunil Mehta, Non-Executive Chairman of Punjab National Bank, Interim Finance Minister Piyush Goyal said the recommendations are fully compliant with RBI regulations, and that there is no proposal to create a "bad bank".

According to the committee, Goyal said, the idea behind Project Sashakt is to ensure the operational turnaround of the banks and stressed companies so that the asset value is retained.

The resolution process suggested by the committee will also help bring in credible long-term external capital to limit the burden on the domestic banking sector while ensuring robust governance and credit architecture to prevent a similar build-up of non-performing loans in the future, the Minister said.

Five-pronged resolution

The five-pronged resolution route — outlining an SME resolution approach, bank-led resolution approach, AMC/AIF led resolution approach, NCLT/IBC approach, and asset-trading platform — envisaged by the committee will be applicable to smaller assets with exposure up to Rs.50 crore, mid-size assets between Rs.50 crore and Rs.500 crore, and large assets with exposure of Rs.500 crore and more which have a potential for turnaround.

The resolution route is also applicable to larger assets already before the National Company Law Tribunal (NCLT) and any other asset whose resolution is still pending.

The process will cover both performing and non-performing assets.

For the resolution of SMEs, the committee suggested the setting up of a steering committee by banks for formulating and validating the schemes, with a provision for additional funds. Stating that the resolution should be complete within 90 days, the committee suggested that the resolution of these assets be under a single bank’s control, with the bank having the liberty to customise it.

Time-bound action

For loans between Rs.50 crore and Rs.500 crore, the committee called for a bank-led resolution approach, with the resolution being achieved in 180 days. The resolution plan has to be approved by lenders holding at least 66 per cent of the debt, it added.

The independent steering committee appointed by the Indian Banks Association (IBA) has to validate the process within 30 days. In this category, the key challenge would be to arrive at a consensus, as the exposure is held by multiple banks/lenders.

AMC to be set up

For loans above Rs.500 crore, an independent asset management company (AMC) will be set up.

The committee also said an alternative investment fund (AIF) would raise funds from institutional investors. Banks would be given an option to invest in this fund if they wish. AIFs can also bid for assets in NCLT, it said.

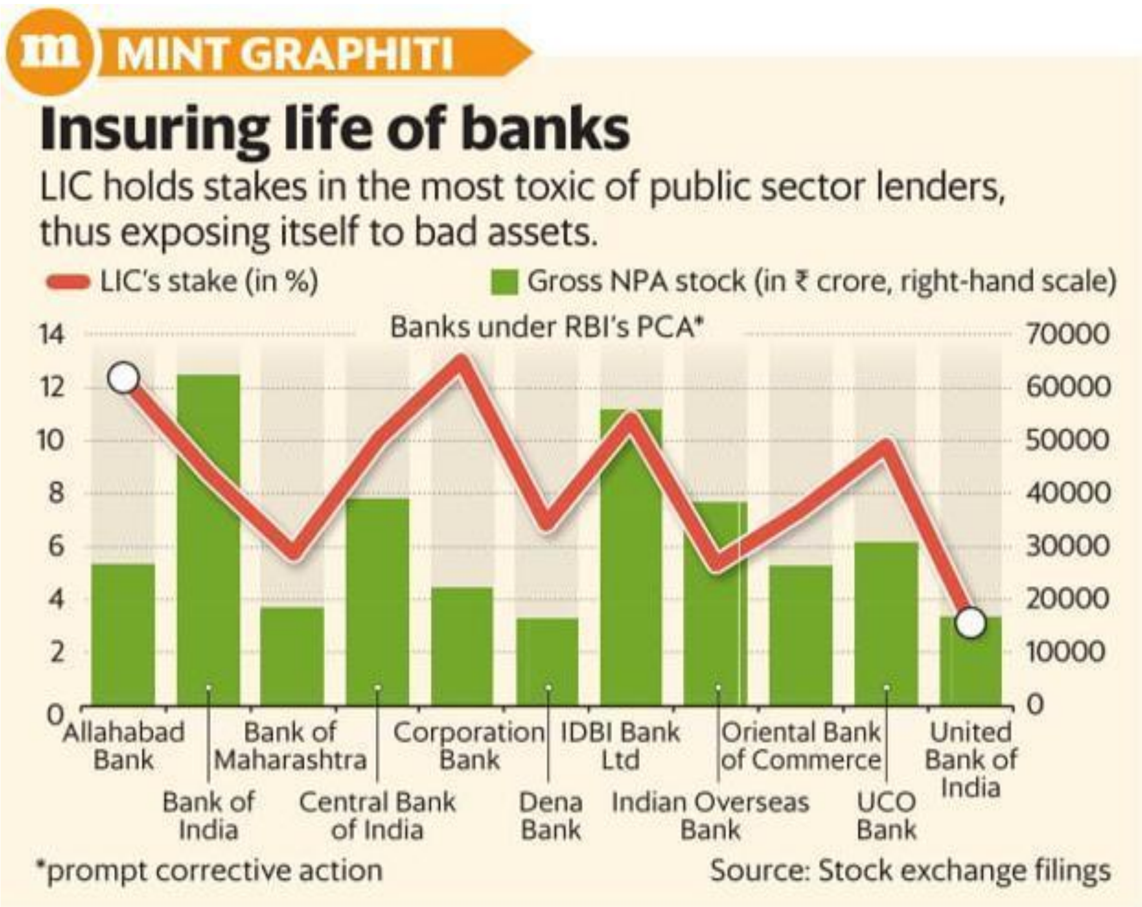
The lead bank can discover price discovery through the open auction route. Security receipts have to be redeemed within 60 days, the committee said.

Who needs a bad bank? We have LIC

IDBI Bank's a rescue mission and LIC cannot dream of making money. In fact, it can only sink in more money for the next few years

The Reserve Bank of India has already flagged the risks to the banking system from its dependence on LIC's funds

Jul 02 2018 | Aparna Iyer



Just weeks ago, the government had floated the idea of a bad bank for the second time and now it has realized its folly by doing so.

After all, why risk public outrage by warehousing the toxic assets on a separate balance sheet funded by taxpayers' money when it is far easier to just transfer the headache of managing the public sector bank with bad assets to someone else.

Enter the idea of Life Insurance Corp. of India (LIC) buying a majority stake in IDBI Bank Ltd, the state-owned lender with the most toxic asset book among banks. This proposal has now got the blessings of the insurance regulator.

LIC would fork out up to Rs. 13,000 crore for a 51% stake without management control and also with differential voting rights. The Banking Regulations Act caps voting rights to 15% of shareholding.

IDBI Bank made a cumulative loss of Rs. 13,396 crore over fiscal years 2015-16, 2016-17 and 2017-18, has close to Rs. 55,000 crore in toxic assets and another Rs.60,000 crore that could turn non-performing.

The lender's recovery rates are horrible and write-offs are through the roof.

Long story short, it will need large sums of capital for the next three years just to exist at the very least.

It's a rescue mission and LIC cannot dream of making money. In fact, it can only sink in more money for the next few years.

Indeed, the life insurer seems to be the government's preferred white knight for rescue missions. It has the highest stake in perhaps the worst of the banks, having participated in capital infusions before.

LIC holds stakes in all the troubled public sector lenders, averaging 8% in each.

Its stake is lowest—below 5%—in Indian Bank, Bank of Baroda and United Bank of India.

These banks account for roughly 8% of the non-performing assets (NPA) stock of the country's banking system.

The six banks in which LIC holds over 10% stake account for quarter of the system's NPA stock.

Simply put, LIC is exposed to a huge chunk of the banking system's bad assets. If this doesn't make it a bad bank, what will?

The Reserve Bank of India has already flagged the risks to the banking system from its dependence on the insurer's funds.

Given the state-run life insurer's track record, a broader question asked by many analysts is, what can stop the central government from palming off its ownership of other sick companies like Air India if the IDBI Bank experiment works?

Are LIC policy holders being taken for a ride?

KUMUD DAS| Jun 30th 2018

NATIONAL HERALD

Insurance Regulatory and Development Authority of India (IRDAI), which has capped LIC's investment elsewhere at 15%, has cleared the proposal for LIC to buy majority stakes in the ailing IDBI bank

Decks have been cleared for the Life Insurance Corporation (LIC) to acquire the lion's share in state-owned IDBI bank following clearance from the insurance sector regulator. IDBI bank is the worst performer among public sector banks and has bad loans worth over Rs.55,000 Crore.

Insurance Regulatory and Development Authority (IRDAI) gave its clearance for the deal in its board meeting held in Hyderabad on Friday. LIC is expected to invest as much as Rs.13,000 Crore to acquire majority stake in the IDBI Bank.

Commenting on the development, MG Diwan, former chairman of LIC, told *National Herald*, “The decision may be convenient (for the government), but it is setting a bad precedence. You (the government) are using the policyholders’ money at your will.”

While the deal is being justified on the ground that LIC will now be able to control a bank like its private sector rivals HDFC and ICICI-Lombard, experts are not sure if investing the policy holders’ money in the worst performing bank is a wise decision.

While the Government has clearly arm-twisted the regulator to relax existing norms which do not allow LIC to acquire more than 15% stake in any undertaking so as to safeguard public deposits, the LIC is now saddled with a sick bank which will require regular infusion of capital from LIC policy holders for the next several years.

Experts say that no wise investor would buy stakes in IDBI Bank because it has the highest Non-Performing Assets among all banks, public and private. It has also posted heavy losses for the last three years in a row, posting a loss of Rs.5,662 Crore in the fourth quarter alone.

Curiously, LIC’s earlier bids to acquire greater stake in Corporation Bank and its bid to acquire a banking licence from the Reserve Bank of India through its arm LIC Housing Finance had come a cropper.

Experts say that no wise investor would buy stakes in IDBI Bank because it has the highest Non-Performing Assets among all banks, public and private. It has also posted heavy losses for the last three years in a row, posting a loss of Rs.5,662 Crore in the fourth quarter alone. Its stressed assets comprise 28% of its total assets and for all these reasons, the Government was not able to find a buyer.

While the Government has tried to wash its hands off, nobody is fooled by the pretence. "Both IDBI Bank and LIC are independent organisations. We have left all decisions to the respective boards and we are not going to micromanage them," a senior finance ministry official was quoted as saying on the sidelines of the annual summit of Asian Infrastructure Investment Bank in Mumbai.

Ironically, when the Government sought to convert IDBI into IDBI Bank in 2003, it assured Parliament that at all times the Government would maintain not less than 51% equity holding in the new set up. On the basis of this assurance, the Bill was approved by Parliament then.

All India Bank Employees' Association (AIBEA) general secretary CH Venkatachalam says, "While investment is a part of LIC's business, it cannot be that all loss making institutions are to be bailed out by LIC at the cost of the interest of the common people who are investors in LIC. It is also well-known that LIC is also saddled with a huge portfolio of non-performing assets/investments. Forcing it to invest in a bank with huge bad loans is not a fair proposition."

All India LIC Employees' Federation has also opposed the government's move to give 30 per cent stake in IDBI to LIC to keep it afloat. "Reportedly, LIC's board has acted in accordance with the government's wish. This will severely impact the policyholders' interests. The step will have a huge ramification on LIC's financial health," the Federation's general secretary, Rajesh Kumar said.

The IDBI bank employees have decided to go on a nationwide strike on 16-21 July, which will be followed by an indefinite strike in case the government doesn't stop the LIC-IDBI deal.

"We are strongly protesting against the government move and hence our decision to go on the strike," Swamy Elanjelian, general secretary, IDBI Bank Officers' Association, told this correspondent.

Throwing good money after bad

Drowning in debt IDBI Bank's woes are systemic

Handing over IDBI Bank to the LIC is a bad idea which will short-change the life insurer's policy-holders

SUBIR ROY

THE HINDU BusinessLine

Going against the grain of advice offered by experts in governance and the financial sector, the government seems ready to hand over the effective control and ownership of IDBI Bank to the Life Insurance Corporation of India. With the insurance regulator approving LIC's request to up its holding in the bank to 51 per cent, it is only a matter of time before the LIC board approves the proposal and the banking regulator Reserve Bank of India adds its consent.

With this ***fait accompli*** before us, it is important to gauge what has made the government go for an action that flies against good sense. This will help understand not just the compulsions that come into play in an election year but the way the government works.

IDBI Bank, with the highest level of gross NPAs (non-performing assets) at 28 per cent among all public sector banks and under the "prompt and corrective action" regimen of the RBI, is an entity that can be said to be in intensive care. It is a dud asset which will make its new owner, LIC, bleed by having to recapitalise it so as to provide for the bad loans, let it meet capital adequacy norms and let it have enough capital to undertake new lending as and when the RBI allows it.

Investing in IDBI Bank will mean throwing good money after bad and made worse by the fact that the money (thousands of crores) will come not from LIC's minuscule share capital but ultimately the premium paid by policy holders. This will result in lowering the surplus that LIC would have otherwise generated and end up in lower bonus being distributed to policy holders. If policy holders had any voice they would have surely opposed it.

Not to speak of the intrinsic rights of policy holders, LIC is also not a listed company. Hence shareholders, particularly minority shareholders, have no role in influencing governance practices in the company. Naturally, the role played by proxy advisory firms in the case of listed companies to ensure that minority shareholders are not duped goes by default.

Looking after policy-holders

There is thus no institutional set-up to specifically look after the interests of policy holders. This is doubly regrettable because in India the middle class and those graduating into it look at a life assurance policy not just to cover life risk but also as a means of compulsory savings. The clear aim of LIC should be to maximise the bonus which comes out of the income from the investments LIC makes from the surplus funds at its disposal after providing for liabilities.

The one and only reason why the government is going in for transferring control of IDBI Bank to LIC is a purely short-term one — reducing the recapitalising bill that the government has to foot as the mountainous bad loans of public sector banks are provided for, their capital adequacy restored and enough capital is available for them to resume lending and grow healthily. Though not having to fend for IDBI Bank will reduce the fiscal burden on the government only marginally – the attitude seems to be that "every bit helps".

This government attitude is particularly intriguing as the fiscal situation in the current financial year is running along correct lines. The fiscal deficit in relation to the target laid down in the Budget for the whole year is lower than what it was at this time (end May) last year, capital investment is up and revenue expenditure is down. Thus the government is not under any acute fiscal pressure.

If there is no immediate and serious fiscal problem in sight what is the need for an action which does no good to the key LIC stakeholder, the policy holder? At the present juncture the ruling political leadership seems to be preoccupied in key electoral issues. Hence we see a logical focus on areas like support price for farmers, a muscular stand towards Pakistan and a similar tough approach in Kashmir which eschews the path of dialogue. The rest of the business is presumably left in the hands of the mandarins — civil servants and government economists.

Their approach is essentially short term — a need to keep the fiscal balance right, that is their own copybook unblotted, with their conceptual orthodoxy as guide to action. Hence, restricting the government's bailout bill is important, irrespective of whether actions like the present are desirable in the long run. The leadership thus seems to have gone with the IDBI Bank decision by default. Or maybe, the health of banks is not considered an electoral issue. At this juncture the Finance Ministry is headless — two incumbent ministers being worse than one.

PSU banks' governance

As for the long run, the paramount task is to set right the way public sector banks run so that a mixture of poor management and governance plus continued political interference does not end up in astronomical non-performing assets. Putting IDBI Bank under the control of LIC will make no difference on this account. An SBI managing director is moving to head IDBI Bank but an individual cannot be a game changer when the problem is systemic.

This is particularly unfortunate as the move sends wrong signals on matters of governance. The Banks Board Bureau under Vinod Rai had, among its recommendations on improving governance practices in public sector banks, said that the provisions of the Companies Act rather than the bank nationalisation statute should prevail when the two are in conflict so that even while the government continues to hold 51 per cent, the governance regime should be like that prevailing in the corporate sector as a whole.

In the case of IDBI Bank which is neither fish not fowl — neither public not private — it recommended that the articles of association be reworked to reflect the above change. But, as we know only too well, the government had no time for Rai's recommendations.

Govt using LIC to cover up its sins in the banking sector: Congress

The Insurance Regulatory and Development Authority of India (IRDAI) had on June 29 permitted LIC to increase the current stake from 10.82 percent to 51 percent in the IDBI Bank

PTI@moneycontrolcom

moneycontrol

The Congress has targeted the government over the of the Life Insurance Corporation (LIC) board's decision to buy a majority stake in the ailing IDBI bank, stating that by doing so the National Democratic Alliance (NDA) dispensation wants to cover up its "sins in the banking sector" using hard-earned savings of 38 crore policy holders.

Hitting out at the government, Congress' communications convenor Priyanka Chaturvedi said squeezing the savings of the common people is the "sole motto" of the Modi government, alleging that it has been attacking the common people at multiple fronts.

"It has discovered a unique way to rub salt on the savings of LIC policy holders too by forcing LIC to buy stake in a loss making IDBI Bank, thereby essentially abusing the faith of the common people in LIC and burdening them with an estimated Rs 13,000 crore," a party statement quoting Chaturvedi said.

In this process, the Modi Govt is completely flouting the Banking Regulation Act, Insurance Regulatory Act, Insurance Act, Insurance Regulatory and Development Authority Act, SEBI Act and so on, the statement added.

29 permitted LIC to increase the current stake from 10.82 percent to 51 percent in the IDBI Bank.

The IDBI Bank is the worst performing public sector bank whose Q4 losses have swollen up to Rs 5,663 crore and gross NPAs to a whopping Rs 55,588.26 crore. It has a bad loans ratio of close to 28 percent, the statement added.

Chaturvedi added that the Modi government is hell-bent to achieve this years' disinvestment target of Rs 80,000 crore and that using the LIC for IDBI Bank is the easiest option.

The Congress asked the government as to why was it "jeopardising" the savings of LIC holders by burdening them with Rs 13,000 crore bailout package of IDBI.

"If this deal goes on, wouldn't the floodgates of similar deals of LIC bailing out Public Sector Banks be opened? The board of IRDAI, okayed LIC's investment proposal as a special case due to IDBI's precarious financial position. More than half of the PSB's are having the same precarious financial position given that this quarter alone; banks have suffered a loss of Rs 87,500 crore. Is Modi Govt. going to do the same for all banks?" the party said.

It also asked the government how it plans on tackling the problem if the stressed balance-sheet of the bank lead to value erosion of the LIC.

FinMin weighs options for consolidation in banking sector

PTI
NEW DELHI, JULY 1

THE HINDU BusinessLine

The Finance Ministry is dusting off merger proposals of public sector banks and have started weighing various options to create few more banks of the size of SBI, sources said.

The country's largest lender State Bank of India (SBI) last month had made presentation twice before heads of other public sector lenders to share its experience of consolidation of five SBI associate banks and Bharatiya Mahila Bank with itself.

The presentation talked about advantages and challenges of merger but it also highlighted that fragmented approach of the banks is acting as an impediment in their growth.

Various permutation and combinations are being examined, sources said, but added that no decision has been taken yet.

With regard to IDBI Bank stake reduction, sources said some positive development has already taken place.

Last week, insurance regulator IRDAI permitted LIC to pick up 51 per cent stake in IDBI Bank as part of transformation of the lender.

Last year, the Department of Financial Services had written to all heads of PSU lenders informing them the government's decision to set up a ministerial panel to facilitate consolidation in the public banking space.

The government has been nudging the state-owned lenders to go for merger so that there can be fewer and stronger banks.

The ministry wants banks to undertake an internal exercise for the best match and come up with the merger idea for the alternative mechanism (AM) set up for the purpose.

The banks should analyse regional balance, geographical reach, IT compatibility, financial burden and human resource transition while firming up the merger proposal for the ministerial panel.

Last year, the Union Cabinet in August decided to set up the alternative mechanism to oversee proposals for expeditious consolidation of public sector banks (PSBs) so as to create larger and stronger lenders.

The proposals received from banks for in-principle approval to formulate schemes of amalgamation will be placed before the panel.

To fast-track consolidation, the government has exempted mergers of nationalised banks from seeking fair trade watchdog CCIs approval.

This exemption will be applicable for ten years and comes at a time when several experts and even policymakers have been talking about the need for consolidation in the banking sector, especially among state-owned banks.

Named in CBI charge-sheet, S Raman quits RBI panel

OUR BUREAU | MUMBAI, JULY 2 BUSINESSLINE

S Raman, former chairman of Canara Bank, has voluntarily stepped down from the RBI-appointed committee that was looking into bank frauds and bad loan divergences after his name figured in a CBI charge-sheet. The CBI, last Thursday, named Raman and another former Canara Bank chairman, AC Mahajan, in connection with a Rs.146-crore loan default by Winsome Diamonds. The diamond firm has defaulted on more than Rs.7,000 crore of loans.

Raman, who last worked with SEBI as whole-time member between 2013 and 2017, said the development has caused a lot of anguish to him. In a letter to the committee, Raman said "keeping with the lofty standards of corporate governance" recommended by the committees he has been associated with, he "would not work with any government or regulatory committee until his name is cleared". A copy of the letter was reviewed by ***Business Line***.

Sources told ***Business Line*** that the CBI was mainly zeroing in on all top bank officials who were known to be close to the former finance minister in the UPA government.

Raman was part of the PJ Nayak committee, which reviewed governance of bank boards in 2014. He also assisted the Uday Kotak committee on corporate governance, which submitted its report last year.

IDBI Bank favourite guinea pig in Indian financial lab

Is LIC acquiring a majority stake in IDBI Bank the transformation Arun Jaitley had promised in Union Budget 2016? Or, is it another intermediate step—a sort of warehousing arrangement?

The key to success of latest experiment with IDBI Bank will be running it professionally

Jul 02 2018 | Tamal Bandyopadhyay Live mint

Five years back, LIC Housing Finance Ltd, the mortgage subsidiary of Life Insurance Corporation of India (LIC), had applied to the Reserve Bank of India (RBI) seeking a banking licence, but did not get it. Now LIC will get a bank.

Is this the transformation of IDBI Bank Ltd, which finance minister Arun Jaitley had hinted at his February 2016 budget speech ("The process of transformation of IDBI Bank has already started. [The] government will take it forward and also consider the option of reducing its stake to below 50%")? Or, is it another intermediate step—a sort of warehousing arrangement?

Since its inception, IDBI Bank has been a favourite guinea pig in the laboratory of the Indian financial system. Its earlier avatar, Industrial Development Bank of India, a development financial institution, was set up in 1964 as a wholly-owned subsidiary of RBI. In 1976, the government replaced RBI as its owner and the mandate given to IDBI was to finance, promote and develop industry in India as the lead agency. In July 1995, following a public issue, the government's holding was pared to 75%.

As it struggled with increasing asset-liability mismatches, the development finance institution had to transform itself into a universal bank. A 2003 Act gave it the status of a company and it became a scheduled bank. To complete the transformation, its own banking arm, set up in 1994, was merged into it in 2005; it even acquired an old private bank to expand its branch network. It also created India's first bad bank in 2005 by transferring Rs.9,000 crore of bad assets to a trust; in the past 13 years, the recoveries have been around Rs.5,450 crore.

Probably, no other Indian bank has appointed as many consultants as this one has done, in search of the right business model. The list includes Booz Allen Hamilton, Mrityunjay Athreya, The Boston Consulting Group (twice) and McKinsey & Company in the past 20 years.

Despite all these, IDBI Bank could never reinvent itself. The seeds of failure were sown in the 2003 Act itself, which allowed it to "carry on banking business" but that is "in addition to the business which may be carried on and transacted by the development bank". So, even after becoming a bank, it could never shed the skin of development banking. In the process, it killed a fine private bank, its own offspring.

Between fiscal 2016 and 2018, it has posted a net loss of over Rs.17,000 crore. Its stressed assets are Rs.60,422 crore. The pile would have been far higher had it not written off Rs.22,623 crore bad loans. In percentage terms, the bad assets are close to 28% of the loan book, the highest among all Indian banks. Its net bad loans of Rs.28,665 crore are far more than its current net worth. In the past two years, the bank's total assets shrank at 3.5 percentage points each.

The gross bad assets may start coming down after peaking around 31%. The bank's operating profit rose 71% in 2008 to Rs.7,905 crore but out of this, Rs.4,400 crore was generated through sale of so-called non-core assets.

On the positive side, there are more non-core assets to be sold. It has also redeemed Rs.5,000 crore worth of additional tier-1 bonds, saving around Rs.530 crore interest annually.

Indeed, IDBI Bank's net interest margin, a key indicator of a bank's efficiency, at 1.8%, is the lowest among all banks but with steady redemption of bulk deposits and rise in low-cost current and savings account (37.15% in March 2018), it will rise. Its inability to disburse 40% of its loans to agriculture and other small enterprises under priority sector norms historically forced it to invest the shortfall in the low-yielding Rural Infrastructure Development Fund (RIDF). As its priority loan portfolio expands and RIDF investments get redeemed, its earnings will rise.

Most importantly, its retail asset book has grown to 45%; the quality of such assets is comparable with relatively better-off banks. Simultaneously, the risk-weighted assets have come down from 2.69 trillion in 2017 to Rs.2.21 trillion in 2018, freeing up capital.

While LIC will get IDBI Bank's 140 million customers and 1,900 branches to sell its insurance products, the bank will earn fees and free float money boosting its income and bringing down the cost of funds. In future, LIC could also merge its mortgage unit with the bank. The key to success of the latest experiment with IDBI Bank will be running it professionally and LIC not acting as proxy for the government. DBS Bank, the largest bank in South-East Asia by assets, was set up by the Singapore government as a development financial institution in 1968, four years after IDBI. It is run by its board. The government has nothing to do with it except for earning handsome returns on its investment.

AIBEA THIS DAY JULY 4	
1962	**Desai Award published.**
1997	**Total strike by all Bankmen under UFBU against local area banks, on demand for pension in private Banks, RRB issues. etc.**
1999	**Com. Indrajit Gupta, Inaugurates 'Prabhat Parwana Trade union Centre', constructed by State Bank of Patiala Employees Federation at Patiala.**
2001	**UFBU Strike Call on payment of wage arrears in Indian Bank, UCO and UBI.**

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