AIBEA's Banking News

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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

RBI, Government Step In To Stem Speculation On Weak Banks

Bloomberg Quint 23 Dec 2017

The Reserve Bank of India (RBI) and the government, on Friday, stepped in to stem rumours swirling around the fate of weak public sector banks. In separate statements, they said that the government has no intention of closing down any banks and added that corrective actions being taken are only intended to strengthen the banks.

RBI, the country's banking regulator, said that banks being put under the Prompt Corrective Action (PCA) framework does not impact their daily functioning.

The Reserve Bank has clarified that the PCA framework is not intended to constrain normal operations of the banks for the general public, it said in a reiteration of its earlier stance.

Ten government-owned banks are now under the PCA framework. This includes Bank of India, Central Bank of India, IDBI Bank, UCO Bank, Dena Bank, Oriental Bank of Commerce, Indian Overseas Bank, Bank of Maharashtra, United Bank and Corporation Bank.

PCA is undertaken when a lender's financial indicators weaken below a prescribed level. Subsequent to the PCA, controls are imposed on declaring dividends and on expanding operations. In some cases, restrictions are also placed on lending.

In a separate statement, a senior government official clarified that there is no plan to shut down any bank. Rajeev Kumar, secretary at the Department of Financial Services advised citizens not to believe rumors since there 'no question' of closing down any bank.

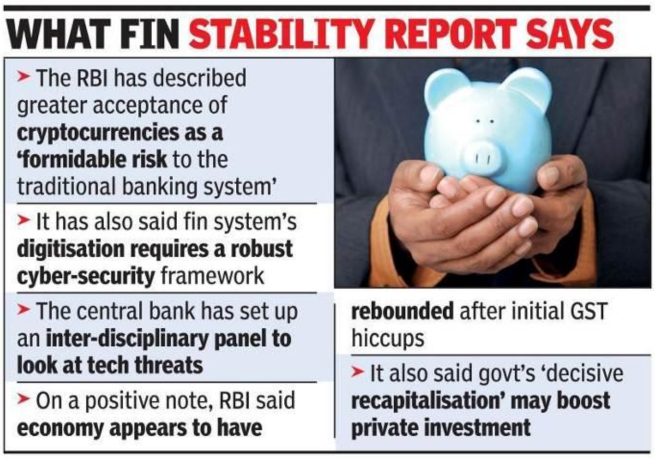
Bad loans will rise to 11.1% from 10.2% in a year: RBI

TNN | Dec 22, 2017
THE TIMES OF INDIA

MUMBAI: The Reserve Bank of India (RBI) has said that gross bad loans of banks are likely to rise to 11.1 per cent by September 2018 from 10.2 per cent as of September 2017. However, on the positive side, tests show that the degree of interconnectedness in the banking system has decreased gradually since 2012.

"The overall risks to the banking sector remained elevated due to asset quality concerns. Between March and September 2017, the gross non-performing advances (GNPAs) ratio of scheduled commercial banks (SCBs) increased from 9.6 per cent to 10.2 per cent and the stressed advances ratio marginally increased from 12.1 per cent to 12.2 per cent," the RBI said in its financial stability report (FSR) released on Thursday.

"The macro stress test for credit risk indicates that under the baseline macro scenario, the gross non-performing assets may increase to 10.8 per cent by March 2018 and further to 11.1 per cent by September 2018," the report said.



WHAT FIN STABILITY REPORT SAYS

- The RBI has described greater acceptance of **cryptocurrencies as a 'formidable risk** to the traditional banking system'
- It has also said fin system's **digitisation requires a robust cyber-security** framework
- The central bank has set up an **inter-disciplinary panel to look at tech threats**
- On a positive note, RBI said **economy appears to have rebounded** after initial GST hiccups
- It also said govt's 'decisive **recapitalisation' may boost private investment**

Among other risks to Indian banks, the report has flagged financial technology companies and cryptocurrencies as a potential risk. "In particular, greater acceptance of cryptocurrencies is becoming a formidable risk to the traditional banking system," the report said.

On online risks, the RBI said that the policy push towards digitisation of the financial system hinges crucially on a robust cyber-security framework. The RBI said that it has set up an inter-disciplinary standing committee to review the threats inherent in the existing/emerging technology on an ongoing basis.

Despite the concerns thrown up by stress tests, the RBI is optimistic on the growth front. "Domestically, the economy appears to have rebounded after the initial hiccups associated with the rollout of nationwide goods and services tax (GST), coming on the back of demonetisation. While the ongoing de-leveraging in the heavily indebted parts of the corporate sector and muted credit growth in the public sector banks pose a risk to growth, the decisive recapitalisation move by the government could provide the much needed fillip to private investment going forward," deputy governor N S Vishwanathan said in a foreword to the report.

In a separate report on 'The Trends and Progress of Banking in India', the RBI said that the Financial Resolution and Deposit Insurance Bill, 2017 introduced in Lok Sabha will address the moral hazard problem associated with various forms of government guarantees.

The moral hazard refers to lenders with poor track record being able to raise funds at same rates as the best banks on the back of a government guarantee. According to the RBI, the new bill provides speedy and efficient resolution of distress for certain categories of financial service providers and recommends establishment of a Resolution Corporation (RC) for protection of consumers of specified service providers and of public funds.

IMF, RBI flag persistent risks to India’s banking system

IMF wants the government to consider privatization of weak public sector banks by selling their viable assets rather than their mergers with stronger banks

Under RBI’s base case scenario, bank NPAs may rise from 10.2% of gross advances in September to 10.8% in March and further to 11.1% in September 2018

Dec 22 2017
Asit Ranjan MishraGopika Gopakumar

New Delhi/Mumbai: The International Monetary Fund (IMF) and the Reserve Bank of India (RBI) highlighted persistent risks to the banking system owing to asset quality concerns, in separate financial stability assessments released on Thursday. The multilateral institution urged the Indian government to consider privatizing weak public sector banks (PSBs) by selling their viable assets rather than merging them with stronger banks, since that would undermine the viability of the acquirer.

It also recommended increasing the central bank's independence, expanding other financial regulators' resources, introducing a risk-based solvency regime, and enhancing safety net measures such as deposit insurance and emergency liquidity assistance to improve financial stability.

The IMF said that though India's key banks appear resilient, the system is subject to considerable vulnerabilities and their capital needs range from 0.75% of GDP in the baseline to 1.5% of GDP in the severe adverse scenario.

"Stress tests show that while the largest banks are sufficiently capitalized and profitable to withstand a deterioration in economic conditions, a group of PSBs are highly vulnerable to further declines in asset quality and higher provisioning needs," it said. These vulnerable banks "would require additional capital under the baseline scenario and some would almost deplete capital buffers due to growing NPAs (non-performing assets) and provisioning needs if stress intensifies. Capital needs are manageable in the aggregate, ranging between 0.75% of GDP in the baseline to 1.5% of GDP in the severe adverse scenario."

The stress tests conducted by IMF experts covered the 15 largest banks, including 12 PSBs, which account for 71% of the banking sector assets. RBI's stress tests also show a rise in non-performing assets (NPAs) even though the regulator said that India's financial system as a whole remains stable and stress in the banking sector, "while significant, appear to be bottoming out".

Under the central bank's base case scenario, gross NPAs in the banking sector may rise from 10.2% of gross advances in September to 10.8% in March and further to 11.1% by September 2018. In its June financial stability report, RBI had projected that the banking system's gross bad loan ratio will rise to 10.2% of the total loan book by March later if economic conditions stay the same.

A rising level of bad loans would also hit the capital adequacy ratio of banks, the regulator warned. Capital adequacy ratio is an indicator of a bank’s financial strength, expressed as the ratio of capital to risk-weighted assets (CRAR).

Under its base case scenario, two banks may have a CRAR below the minimum regulatory level of 9% by March, the RBI report said. However, if macro conditions deteriorate, six banks may record a CRAR below 9% under severe macro stress scenario and the system level CRAR may decline from 13.3% in March 2017 to 11.2% the next year, the report said.

“While the ongoing deleveraging in the heavily indebted parts of the corporate sector and muted credit growth in the public sector banks pose a risk to growth, the decisive recapitalisation move by the government could provide the much needed fillip to private investment going forward. If we keep our financial system, especially, the banking sector, in good shape, we can catch the tail winds of the external conditions. That would mean keeping the economy on even keel in terms of macroeconomic balance,” said N.S. Vishwanathan, deputy governor of RBI.

The IMF, on the other hand, called for reducing the state’s ownership stake in PSBs to the mandated minimum of 52%.

“The recapitalisation and restructuring strategy should support the authorities’ aim toward further consolidation of the banking industry, while avoiding mergers that could undermine the viability of the stronger PSBs. A blueprint for restructuring and privatization, with clear time frames, could usefully guide these efforts,” it said.

The multilateral institution said that a mix of greater participation of the private sector in capitalizing PSBs and full privatizations would boost the banking sector’s capacity to support credit and reduce moral hazard and fiscal contingencies.

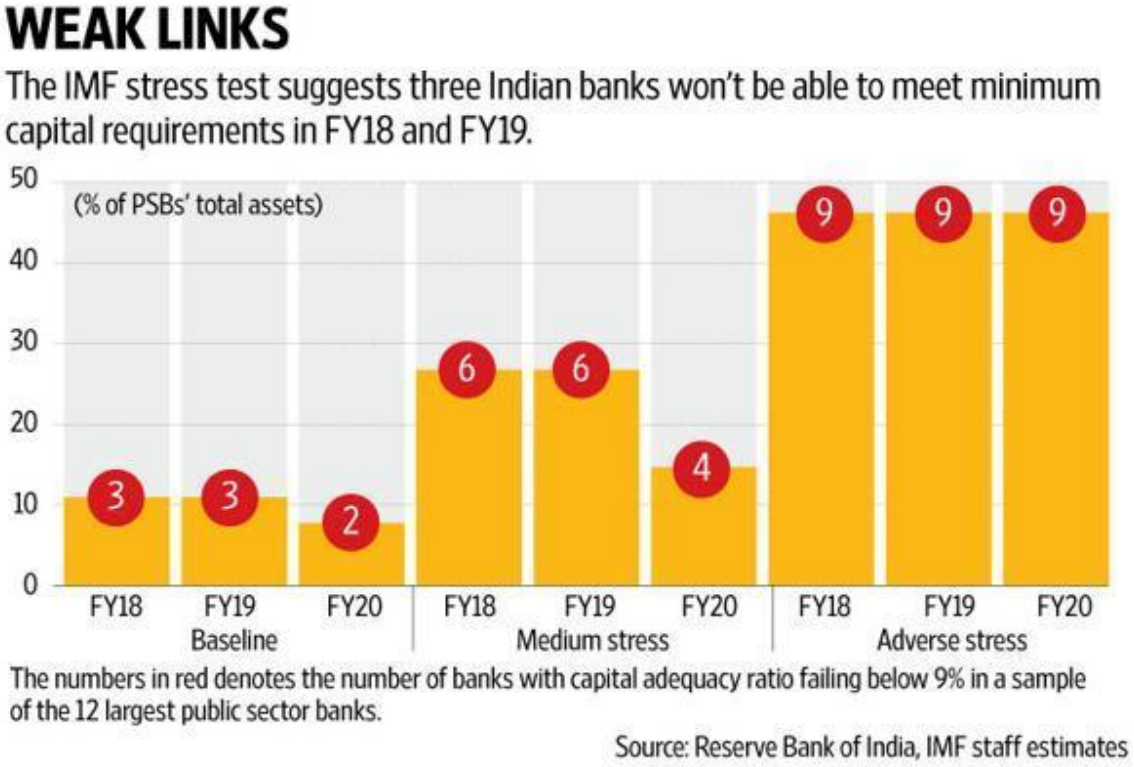
On the privatization of state-run banks, finance minister Arun Jaitley, speaking at the *Hindustan Times Leadership Summit* last month, said such a move needs political acceptability. “I am pragmatic to realize that political opinion is not ready to take that decision,” he added.

The finance ministry recently announced an unprecedented Rs2.11 trillion PSU bank recapitalisation plan including recapitalisation bonds of Rs1.35 trillion, which amounts to 1.3% of GDP. On 1 November, the government announced the establishment of an alternative mechanism panel, headed by Jaitley, to seek consolidation across state-owned banks.

IMF report: Govt should withdraw its grip on banking

It is time for the government to adopt a hands-off approach if it wants to create future value for its shareholding in PSU banks. The IMF certainly feels so

Dec 22 2017
Aparna Iyer



WEAK LINKS

The IMF stress test suggests three Indian banks won't be able to meet minimum capital requirements in FY18 and FY19.

The numbers in red denotes the number of banks with capital adequacy ratio failing below 9% in a sample of the 12 largest public sector banks.

Source: Reserve Bank of India, IMF staff estimates

To its credit, the government has laid out a plan through which it intends to reduce its stake in PSU banks over time

State-run enterprises are not known to be efficient in allocating capital and creating value. What better example of this than the current lot of public sector banks that control more than 60% of the lending to the real sector. These lenders are buried under an unmanageable pile of bad assets, have huge holes in their capital base and have burned shareholder value over the last three years.

Perhaps the way this reflects on the state's management of enterprises has prompted the International Monetary Fund (IMF) to push for greater participation of private capital in public sector lenders. In other words, the IMF wants the government to slowly withdraw its grip on banking. How can this be done? The Financial Sector Stability Assessment by IMF for India recommends reduction in government stake in public sector lenders to 52%, merging some lenders and privatizing others.

The stability report by IMF noted that "the state footprint needs to be rebalanced away from large ownership and directed lending toward better leveraging of public capital. A mix of greater participation of the private sector in capitalizing the PSBs and full privatizations would boost the banking sector's capacity to support credit and reduce moral hazard and fiscal contingencies."

IMF's recommendation comes on the back of its stress test on Indian banks wherein it found that in the baseline case, three banks will fail to meet regulatory capital adequacy requirement in the current fiscal year and in fiscal 2019. Public sector banks are the weakest, with the biggest pile of bad loans and sharpest erosion in capital.

To its credit, the government has laid out a plan through which it intends to reduce its stake in lenders over time. It has also announced a bank recapitalisation plan wherein the burden would be on banks to raise money rather than the exchequer alone. The government has clarified that capital infusion would not be free for all but based on merit and performance. This is a tacit indication of consolidation of weaker public sector banks. But IMF is not so gung-ho about such consolidation. It says, "Provision of public capital should be contingent upon meaningful restructuring of PSBs, and exit of weak banks (via sale of viable assets and liabilities to stronger public and private banks) should be considered, as consolidating weak PSBs into stronger ones risks undermining the viability of the acquirer." Where the government is dragging its feet is governance and regulation. Here too, IMF is urging the government to give greater powers to the Reserve Bank of India (RBI) and Bank Boards Bureau. RBI should be empowered to remove bank executive directors and even force mergers or liquidation of banks in extreme cases, the fund has recommended.

A stronghold on banks ensures the government gets to push through its social sector initiatives, the major reason for the reluctance of the state to reduce its grip on banking. But it is time for the government to adopt a hands-off approach if it wants to create future value for its shareholding. IMF certainly feels so.

Now, private banks face bad loans heat

SPECIAL CORRESPONDENT

DECEMBER 21, 2017
THE HINDU

Private lenders' GNPAs rose 40.8%: RBI

Private sector banks registered a 40.8% year-on-year increase in gross non-performing assets as of September 30, 2017, according to latest data released by the Reserve Bank of India (RBI).

In comparison, gross NPAs at public sector banks (PSBs) rose by 17% over the corresponding period, while industry-wide gross NPAs increased 18.5%.

The gross NPA ratio of the banking sector increased to 10.2% in September, from 9.6% in March, while net NPA ratio rose to 5.7%, from 5.5%. However, the total net NPA ratio of private sector banks as on September 30, at 2%, is much lower than the 5.7% for PSBs.

In its Financial Stability Report released on Thursday, the RBI said an analysis of the slippage ratio of 27 banks (accounting for about 87% of the total assets of the banking system), the median as well as the tails were showing signs of moderation. However, banks needed to increase their provision coverage ratio.

"While assessing the risk absorbing capacity of banks, it was found that all PSBs and some PVBs had a negative provisioning gap assuming a benchmark provision coverage at 50%," the central bank said.

Stress test

The macro stress test for credit risk indicates that under the baseline macro scenario, the GNPA ratio may increase to 10.8% by March 2018 and further to 11.1% by September 2018, RBI said.

The report observed that the ongoing deleveraging in the heavily indebted parts of the corporate sector and muted credit growth in public sector banks pose a risk to growth. Subdued credit, which may also be a consequence of thin capital buffers of PSBs, leads to lower investments in the economy, it said.

Credit growth in major sectors as well as industries has witnessed a decline over the past two years.

However, there was a silver lining. The RBI noted that the number and cost of stalled projects reported in the second quarter of the current fiscal had declined from the first quarter.

“The positive signals of improvement – the decline in number and cost of stalled projects, the efforts to improve the quality of government expenditure, ease of doing business ranking, sovereign rating upgrade by Moody’s and the bank recapitalisation announcement are expected to provide a significant fillip to investment sentiment in the coming quarters,” the RBI added in the report.

Bill To Change Gratuity Rules Tabled In Parliament

Gratuity is calculated on the basis of a formula subject to a ceiling of 10 lakhs

New Delhi:

The government on Monday introduced a bill in Lok Sabha that will allow it to notify the period of maternity leave and gratuity that can be availed by employees under a central law. The Payment of Gratuity (Amendment) Bill, 2017 was introduced by Labour Minister Santosh Kumar Gangwar in the lower house of Parliament, amid continued sloganeering by opposition members and counter-slogans by those of the BJP.

The Payment of Gratuity Act 1972 was enacted to provide for gratuity payment to employees engaged in factories, mines, oilfields, plantations, ports, railway companies, shops or other establishments. It is applicable to employees who have completed at least five years of continuous service in an establishment that has ten or more persons.

According to the Statement of Objects and Reasons of the bill, the amendment would allow the central government to notify the maternity leave period for “female employees as deemed to be in continuous service in place of existing twelve weeks”.

The proposal comes against the backdrop of the Maternity Benefit Act (Amendment) Act, 2017 enhancing the maximum maternity leave period to 26 weeks.

"It is therefore proposed to empower the central government to enhance the period of existing twelve weeks to such period as may be notified by it," the Statement said.

With respect to gratuity, the amount is calculated on the basis of a formula which is 15 days of wages for each year of completed services, subject to the ceiling of Rs 10 lakh. This limit was fixed in 2010.

After implementation of the 7th Central Pay Commission, the ceiling of gratuity amount for central government employees has been increased from Rs 10 lakh to Rs 20 lakh.

Generally, the ceiling under the Act follows that of the Central Pay Commission recommendations.

"Therefore, considering the inflation and wage increase even in case of employees engaged in private and public sector, the entitlement of gratuity is also required to be revised for employees who are covered under the Act."

"It has also been proposed to empower the central government to notify the ceiling proposed, instead of amending the said Act, so that the limit can be revised from time to time keeping in view the increase in wage and inflation, and future Pay Commissions," the Statement said.

AIBEA THIS DAY – 23 DECEMBER	
1905	**Dr. B N Pandey, Founder, UPBEU and veteran leader of our movement (date of birth)**
1967	**Former Finance Minister Shri. Morarji Desai moves Social Control Bill in Lok Sabha.**
1968	**15th Conference of AIBEA at Pune. Com. D P Chadha and Prabhatkar elected President & General Secretary**

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