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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

CBI looks for banking, tax experts to help probe into multi-crore scams

BY PTI | JUL 08, 2018

THE ECONOMIC TIMES

NEW DELHI: The Central Bureau of Investigation (CBI), which is probing the over Rs 13,000 crore Punjab National Bank scam as well as other financial frauds, has sought deputation of banking and tax experts from various ministries with an offer of good monetary incentives.

According to an official communique sent by the CBI to finance and other key ministries, the agency has asked for officers on deputation as advisor (banking), senior advisor (foreign trade or foreign exchange), deputy advisor (foreign trade or foreign exchange) and senior advisor (taxation) on deputation.

Those selected will initially be given short-term contract with the premier investigation agency, it said.

These posts are to provide technical assistance and expertise in probing cases involving banking, foreign trade and foreign exchange, taxation and to supervise the work of other technical officer working in the agency, the letter routed to various ministries said.

"It may be noted that the officers coming on deputation to CBI are entitled for a special security allowance at the rate of 20 per cent on the pay," it said.

The communique, however, said the candidates who apply for the post will not be allowed to withdraw their candidature subsequently.

The CBI is looking into various big-ticket fraud cases in banks besides other complex cases related to foreign trade and taxation.

Among the prominent ones is the over Rs 13,000-crore fraud in the PNB allegedly committed by jeweller Nirav Modi and his uncle Mehul Choksi, the promoter of Gitanjali Gems.

The CBI had some time back also booked top officials of two public sector banks, a former CMD of the IDBI Bank, former Aircel promoter C Sivasankaran, his son and companies controlled by him in connection with a Rs 600-crore loan fraud in the IDBI.

The CBI had on Friday arrested two senior retired officers of the Bank of India in connection with alleged loan fraud of Rs 2,654 crore by Vadodara-based Diamond Power Infrastructure Ltd. (DPIL) in the bank.

Some former top RBI officials are also under the scanner of the CBI for alleged financial frauds.

The induction of financial expert in the agency will help in expediting probe in financial crime cases, they said.

During 2017, the CBI had registered 939 regular cases and 137 preliminary enquiries. As many as 9,383 cases were pending in various courts at the end of the year.

A tale of two economies: the US and the UK

Krishnan Srinivasan

JULY 09, 2018

THE HINDU

With slow growth and Brexit problems, the U.S. and the U.K. have reason to regard India with some envy

Former Prime Minister Manmohan Singh claims that India's economy has been "systematically dismantled" by the BJP government. He should know that every nation’s economy is only a glass half full. Two of the world’s biggest economies, the U.S. and the U.K., are both facing uncertain economic times.

Economic woes

By next summer, U.S. President Donald Trump could claim to have beaten the 10-year growth period of 1991 to 2001. Cutting interest rates, injecting billions of dollars into the economy, cleansing the financial system so that banks can resume lending, tax cuts by the Barack Obama administration, and spending increases helped the U.S. economy recover. But average growth is still only 2.2% without a single annual increase of over 3% over the past 10 years. Half the growth benefits during Mr. Obama’s tenure went to the top 1% of households, and the lack of real income growth for society’s lower levels led to the discontent that pushed Mr. Trump to the top position. Problems are likely to start with the financial sector, tightening policy by central banks, and overvalued asset prices. The U.S. Federal Reserve has the difficult task of raising interest rates without precipitating a downward slide when the impact of the fiscal boost is fading. If this happens, Mr. Trump will be seeking a second term when the U.S. economy is in the doldrums.

Brexit troubles

In the U.K., the situation is worse. Leaving the European Union (EU) means getting into uncharted waters. Much of the acrimony is within the ruling Conservative Party over the exit plan, leaving Prime Minister Theresa May to negotiate both with the EU and her party simultaneously. Britain’s growth rate over the past year is half its average over the past 25 years, investment is stagnating, mortgage approvals are down by nearly a quarter, and almost half of EU businesses have cut back on their investment since Britain decided to leave the EU.

In the first quarter of this calendar year, the growth rate was slowest for five years. An expected interest rate rise has been deferred amidst talk of possible recession. Over the past year, inward investment has dropped by $181 billion, outward investment has risen by $120 billion and real income has fallen by 10% as employers resort to low-paid, low-skilled casual work. The services sector has become dependent on low-end EU labour. If visas are required for these people after Brexit, the outcome will be devastating. The only bright sign is that high-tech companies that threatened to leave Britain with the prospect of leaving the EU have not yet shown signs of doing so.

There is disagreement among the Conservatives over future links with the EU’s single market and customs union. To summarise, a country like Norway can be in the single market but not the EU: this involves eliminating tariffs, quotas and taxes on trade, and allowing free movement of goods, services, capital and people against payments towards the EU’s budget, and accepting the jurisdiction of the European Court of Justice. The EU is not only a single market, it is also a customs union. Thus a country like Turkey is in the customs union, which does not cover food, agriculture or services, but not in the single market or the EU. This option would solve the border problem between the Irish Republic and Northern Ireland, which would remain open, but the U.K. would not be able to strike free trade agreements with other countries, which remains the exclusive mandate of the EU. A Free Trade Area is one where there are no tariffs or taxes or quotas on specified goods and/or services from one country entering another. The negotiations to establish it can take years and there are normally exceptions, so agriculture and fisheries might be exempted, certain industries protected, and some goods not covered at all.

The Theresa May government confronts the painful truth that leaving the single market and the customs union will introduce barriers to buying and selling with Europe. Ms. May attempts to solve this dilemma by promoting her plan for a hybrid arrangement called a customs partnership, wherein on behalf of the EU, Britain would collect tariffs set by the customs union on goods entering the U.K., and if those goods do not leave the U.K., and British tariffs on them are lower, companies could claim the difference. This project has been criticised by hard line members of her cabinet who prefer a clean break with the EU. They had put forward an alternative ‘maximum facilitation’ plan by which goods would be tracked electronically and pre-cleared with tax authorities. This procedure would work with an established ‘trusted trader’ scheme to remove the need for physical customs checks and enable companies to pay duties every few months rather than each time they crossed the border. Both schemes are complex and lack clarity. More importantly, there is no indication that the EU will agree to either option, which in any case would not be ready by 2020 when the transitional period expires.

The EU wants the formalities completed by October this year while Ms. May is apparently counting on Brussels caving in at the eleventh hour rather than precipitating the mutual damage arising from the absence of any deal. But the EU can afford a waiting game while the U.K. cannot. With a succession of defeats in the Upper House, an uncertain majority in the commons and the deadline of March 2019 for the U.K.’s exit from the EU fast approaching, the public which voted to leave the EU might well ponder how prepared they are for a future outside Europe. Ms. May depends on the erratic tolerance of her own party to survive. Discussions and divisions have centred, with considerable ambiguity, on what constitutes a meaningful say for Parliament on any future Brexit deal. Ms. May argues that Parliament cannot tie her hands in the negotiations and should not act against the will of the majority that voted for Brexit.

Consequences of leaving the EU

Leaving the EU will affect Britain in many ways. It will be excluded from the EU space project Galileo, and lose access to the EU global positioning system that will challenge the American GPS as a market leader. It will lose EU funding for scientific research. The U.S. is likely to drive a very hard bargain for rights for British airlines. Britain will also lose its place as a leading country in the EU’s customs union. This asset is to be replaced by new trading relationships that will have to be painfully negotiated by Britain one by one. The growth model of inward investment based on Britain’s technology and access to the world’s biggest free trade area will disappear, and what will remain is an overpriced housing market in danger of collapse. Both the U.S. and the U.K. have reason to regard India's economic prospects and political stability with some envy.

Govt. taps RBI to track all transactions

Manojit Saha
MUMBAI, JULY 08, 2018
THE HINDU

Central bank asked to devise infotech framework to keep a tab on non-cash financial transactions

In a move aimed at widening the crackdown on black money and following the money trail flowing in and out of thousands of shell companies, the Centre is planning to set up an information technology (IT)-based mechanism to keep a tab on all non-cash, financial transactions in the country.

Highly-placed government sources involved in devising the initiative said the Reserve Bank of India (RBI) had been asked to develop the IT infrastructure for this purpose. There have been a series of interactions over the past one month to discuss the issue, with these parleys attended by top government officials from the Ministries of Finance and Corporate Affairs as well as RBI officials. Currently, the idea is to make the RBI the sole repository of such information, which will not be made available to other agencies such as the income tax department and the enforcement directorate as a default. Such agencies may be required to make specific requests to the central bank if they want information on a particular set of entities.

An official aware of the development said that although the data will be captured for all transactions irrespective of the size of the transactions, the large ones would be relevant for enforcement purposes. Under the Prevention of Money Laundering Act, banks and financial institutions are already required to alert the Financial Intelligence Unit, under the Finance Ministry, to any suspicious transactions, cash or otherwise. Cash transactions of more than Rs.10 lakh (including a series of transactions integrally connected to each other and exceeding Rs.10 lakh in a month), need to be reported to the FIU.

7-day deadline

All suspicious transactions need to reported to the unit within seven days after it is concluded that those are suspicious in nature.

The move to track all financial transactions is the latest in a series to curb black money and identify shell companies, sources said. Following the 2016 demonetisation exercise that rendered more than 86% of the currency in circulation invalid, it was found there had been a significant spurt in the operations of shell firms that typically have no assets or active businesses.

The Centre has shut down more than two lakh such entities. More than two lakh other firms that have not been carrying out operations have been sent notices. Depending on their responses, a decision would be taken on how many would be deregistered.

In FY17, the FIU had received more than 15.9 million Cash Transaction Reports and 4.73 lakh Suspicious Transaction Reports.

‘Bad bank’ can help improve NPA resolution

Santosh Kumar Das
JULY 08, 2018
THE HINDU

Separating bad assets from good ones and maximum recovery at the lowest cost are the tenets on which the ‘bank’ must be built

The limited success of the current NPA resolution framework and its mechanisms calls for new forms of institutions which will be effective in dealing with the current NPA crisis.

The need for a new institution is warranted due to two basic reasons.

The first is to do with the principle of separation of good and bad assets. The separation of bad asset helps the banks to focus on their business expansion. The second relates to maximum recovery and hence minimum burden or cost on the banks or the government. These are the principles around which a new institution should be framed.

International experience shows that a 'bad bank' or 'Asset Management Company (AMC)' has the potential to fulfil the above vital principles and can possibly address the NPA resolution challenge more effectively.

It is possible to conceptualise and set up an institution in India on a similar lines.

Countries that have gone through banking crises at different times have adopted the above two principles and have created specific institutions to deal with their NPA problem. While the essence of the institution remained same, the operational structure, however, varied from country to country. And, so also the outcome. Countries have had a variety of experiences in outcomes or success in NPA resolution.

Governance and financing

The new institution should be independent and transparent in its operation with high emphasis on professionalism.

While the government needs to own and oversee governance at the institution, the managerial staff, however, can be outsourced to strengthen operational and managerial efficiency. The experience in other countries offers two key commonalities that were inherent in their respective institutions – accountability to the government or its agencies and managerial efficiency.

As to financing, broadly, there can be four ways of financing an asset management company as seen in several countries. These include equity injection by the government, special loans from the central bank, AMC bonds and public offering of shares.

Issuance of AMC bonds has been the major source of finance in a majority of the countries. Ideally, the government must invest first for the creation of such an institution.

Mere creation of a new institution in the form of either 'bad bank' or 'AMC' does not guarantee automatic success. International experience suggests that the success of the AMC will depend on three critical conditions: first, there should be a clear distinction between the bad and good assets (in other words, the definition of a bad asset has to be followed strictly; second, over time, the economy should bounce back to high growth trajectory; third, preventive measures must be in place so that every new loan that is disbursed does not become an NPA too soon.

The fulfilment of the above conditions will determine the degree of success of the 'bad bank' or the asset management company.

Nothing new in Mehta panel report

No lifeline The Sunil Mehta Committee doesn't extend much of a helping hand for ailing banks

None of the recommendations give an immediate handle to attempt early resolution of NPAs in banks

P RUDRAN

THE HINDU BusinessLine

From a reading of the Sunil Mehta Committee report on restructuring stressed assets and creating more value for public sector banks, one can say that a lot of time and energy has been wasted without any useful purpose. The only positive outcome is that the idea of a bad bank has been junked. One hopes it will not crop up again when the authorities run out of ideas for resolving NPAs (non-performing assets).

There is nothing new in the report. The committee suggests what banks should do, which most of the banks any way are doing. The bank-led resolution approach has failed and that's why alternative plans to resolve

NPAs quickly are being sought. "Large banks will help smaller lead banks to run the process if required," is a laughable suggestion.

Why another AMC?

Other recommendations like banks setting up focussed verticals for management of stressed assets, templated resolution approaches, SME Steering Committee, among others, are not new ideas. These are in operation in most of the banks in one form or the other.

Solutions to help banks out of the huge NPA mess must be found rather than suggest complicated work processes that burden them further.

Setting up of an asset management company (AMC) or alternate investment fund (AIF) may look like a good recommendation. But should new platforms be created for NPA resolution? When 26 ARCs and a couple of resolution advisory service companies are in operation, do we need another set of AMCs?

And, how will AIFs work with a series of AMCs? What is the time horizon? Quick action must be taken rather than go around in circles. There is no recommendation which will give an immediate handle to at least attempt an early resolution.

Therefore, what is outlined in the RBI circular of February 2018 and the IBC (Insolvency and Bankruptcy Code) is the best suited resolution process, where all lenders, including ARCs, can participate. But for the legal entanglement being created by promoters and interested parties, the IBC has so far been a proactive institutional set-up.

Legal recourse has to be minimised so as to arrest the tendency of wealthy promoters and interested parties running to the courts for anything and everything, paying their lawyers rather than the lenders. The Mehta Committee has totally failed in identifying the issues in NPA resolution. The government appears to be serious about resolving the NPA menace and banks should, therefore, be given a helping hand.

It is easy to say that bank executives should not be afraid of the CBI/CVC. If the rules are flouted, they will no doubt be answerable. But that is not the case today. To make the work of bankers easier, there should be a collectively approved mechanism with the blessing of the government and the regulator.

One will agree that keeping NPAs in the banks' books will not do them any good. So they have to be taken out. How can this be done? What are the problems in doing so in the present ARC set-up, which are institutions created for this purpose.

Pricing a grey area

There are some key issues here: One, the price at which the banks should transfer the assets to ARCs. Valuation is the basis on which a bank decides the price. Valuation and detailed due diligence are the backbone of price quoted by ARCs. But then there is no match between these two valuations and hence the difference in the price.

There has been so much discussion on this issue in the past, but it still remains unresolved. Can it not be sorted out? There should be a mechanism to ensure fair valuation, wherein the factors that are being considered by banks as well as ARCs should be taken together. Here, perhaps a templated valuation structure can be created under the aegis of the IBA (Indian Banks' Association).

ARCs are smaller institutions compared to banks and people make investments in them with expectations of returns. If that money is to be used for upfront payment to banks for acquisition whose resolution is not certain, ARCs will be answerable to the investors. Therefore, the views of ARCs will have to be considered. If the IBA cannot do it, the RBI has to step in and streamline the valuation process in a manner acceptable to both banks and ARCs. This will not be time-consuming. A couple of joint sittings can bring out the viewpoints.

Debt aggregation is another important issue. This can be easily sorted out. As was done in a few cases in recent times, the lead bank can take a call. If the lead bank decides to sell the asset to ARCs, other banks should follow suit at the same price so that the ARCs can start the resolution process right from the date of acquisition.

ARCs are low-capitalised institutions. If large scale NPA resolution is to be done they too have to mobilise resources. Only a few investors have come in so far, but there is a lot of interest among others. If the aforementioned bottlenecks are cleared, investors will step in and adequate funds will be made available.

Old wine, new bottle

Asset-trading platform to allow banks to rejig loan portfolios: Sunil Mehta

The Sunil Mehta panel's proposals on the banks' NPA problem are anything but original

EDITORIAL

THE HINDU BusinessLine

Project 'Sashakt' — the Sunil Mehta-led committee's five-point plan on bad loan resolution — offers little by way of any actionable plan to tackle the issues at hand. The committee's five-pronged strategy is nothing but a shoddy attempt to politicise cleaning up of banks' balance sheet and state the obvious, after the initial intent of setting up an asset reconstruction company to take over bad loans ran aground. For instance, the bank-led resolution approach suggested for loans of Rs.50-500 crore, is nothing new. The lead bank — in a consortium lending — preparing a resolution plan, to be approved by 66 per cent of the lenders (by value) is only a mere tweak at best, to the earlier JLF (the joint lenders' forum) structure that failed miserably. The real challenge that banks faced with the JLF was to get everybody on board and build consensus on debt restructuring. Rather than address this issue, the report ends abruptly, setting a 180-day deadline for resolution, taking lead from the RBI’s February circular on stressed assets. The structure also fails to serve the interests of smaller banks — as in the case of JLF — which, unlike the larger ones, may not be willing to throw good money after bad, if restructuring involves additional finance.

On larger loans — above Rs.500 crore — the committee, which rightly points out the lacunae in the existing functioning of asset reconstruction companies (ARCs), fails to elaborate on how such issues will be tackled under the proposed Asset Management Company (AMC) or Alternative Investment Fund (AIF) structure. Unwillingness on the part of the banks to downsize loans, and identify the serviceable portion of debt, has been a key challenge under earlier restructuring schemes such as SDR, or while offloading loans to ARCs. Unless banks are willing and able to take large haircuts, price discovery through open auction, as proposed under the AMC/AIF approach, mean little. Inability to attract capital, owing to regulatory headwinds and poor recovery, has been a key reason for the lacklustre performance by the existing 26 ARCs. While the report talks of raising funds from institutional investors for the AIF, it is unclear, how capital — which has eluded existing ARC players — will start to flow. Unattractive returns and poor recovery rates have dissuaded investors from taking the plunge.

‘Strong independent governance’, ‘paradigm shift in risk process’ and ‘no government intervention’ — words strewn across the Mehta panel’s report — come across as mere rhetoric. . Empowering boards, setting a roadmap for consolidation and the Centre diluting its stake in PSBs are long awaited structural reforms that have sadly been put on the backburner. Instead, quick-fixes such as arm-twisting LIC to rescue IDBI Bank have taken centre-stage. Unless the Centre shows some ‘tough love’ and pushes through reforms, any new proposal to tackle banks’ NPA problem will only remain a cosmetic measure.

PSU banks plan to raise over Rs 50k cr in FY19

PTI | NEW DELHI, JUL 8

THE HINDU BusinessLine

Public sector banks are planning to tap the markets to raise more than Rs 50,000 crore this fiscal to shore up their capital base for business growth and meeting regulatory global risk norms.

Capital is very much required for these banks as they are saddled with non-performing assets (NPAs) of about Rs 10 lakh crore.

According to analysts, their first quarter results may not be very encouraging despite heavy cleaning of books as the dust has not settled on the NPA front.

Out of 21 public sector banks, 13 have already taken the approval from their boards or shareholders for raising capital through the equity market, as per the data compiled by PTI.

The combined value of the shares sales of these banks is upwards of Rs 50,000 crore.

Leading the pack is the Central Bank of India, which has already got shareholders' approval for raising Rs 8,000 crore equity capital through various means, including a follow-on public offer, rights issue or a qualified institutional placement (QIP), to shore up its capital base.

As per the latest annual report of the Central Bank, the bank will allot shares to raise capital through FPO/rights issue/QIP in India or abroad up to the value of Rs 8,000 crore in such a way that the government shall at all time hold not less than 51 per cent of the paid-up equity capital.

Canara Bank also proposes to raise up to Rs 7,000 crore through various means, including rights issue and QIP. Out of this, the bank plans to raise about Rs 1,000 crore through an employee stock purchase scheme (ESPS), under which it will issue up to 6 crore equity shares to its staff.

Bank of Baroda aims to mop up Rs 6,000 crore, while Syndicate Bank plans to access the capital market and raise equity capital of up to Rs 5,000 crore in one or more tranches.

Other banks which have capital raising plans include Oriental Bank of Commerce, UCO Bank, Corporation Bank, Dena Bank, Allahabad Bank and Bank of Maharashtra.

As per the Rs 2.11 lakh crore capital infusion programme announced by the government in October last year, banks will get Rs 1.35 lakh crore through re-capitalisation bonds, and the balance Rs 58,000 crore through raising of capital from the market.

Out of the Rs 1.35 lakh crore, the government has already infused about Rs 71,000 crore through recap bonds in the banks and balance would be done during this fiscal.

Central agency must be set up to evaluate big loan proposals: ICAI

PTI | NEW DELHI, JULY 7

THE HINDU BusinessLine

The Institute of Chartered Accountants of India has suggested constituting a central agency, with cost accountants and experts from other fields, to evaluate the applications for large loans before banks give their approval.

The suggestion comes at a time when the country’s banking system is grappling with mounting sour loans and authorities are working on a multi-pronged strategy to deal with the NPA menace.

For appraisal of big loan proposals that the banks get, the Finance Ministry should look at constituting a central agency, ICAI President Sanjay Gupta told PTI.

The agency will carry out a cost evaluation of the loan proposals as well as audit the efficiency of the projects concerned, he added.

Non-performing assets (NPAs) in the banking sector had crossed Rs 9 lakh crore at the end of December 2017 and the Reserve Bank of India has warned of further worsening of the situation.

According to Gupta, big banks have better means for research and development and they can better evaluate the loan proposals. However, there are several small banks that do not have proper means to appraise them, he said, adding that in such cases, a central agency to look at the loan proposals will play a better role.

AIBEA THIS DAY JULY 10	
1929	**Com. N Jagannathan, former President, KPBEF and Former C C Member, AIBEA (date of birth).**
1954	**Second Conference of MPBEA held at Nagpur. Com. A B Bardhan, AITUC inaugurates. Com. M D Bidkar and P Ram Labhaya elected President and General Secretary.**
1959	**Over 10,000 bankmen demonstrate before National & Grindlays Bank against dismissal of 6 union leaders at Delhi.**
1977	**AIBEA General Council meets at Bhopal- call for struggles to clinch 3rd Bipartite Wage Revision**