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Jaitley to banks: Step up focus on unorganised sector to boost jobs

Finance Minister Arun Jaitley, flanked by Secretary, Department of Financial Srvices, Anjuly Chib Duggal, and Nabard Chairman, HK Bhanwala, at the 36th Foundation Day celebrations of Nabard in New Delhi on Tuesday. –

Sees scope for expanding Nabard-led programme linking self-help groups with banks

NEW DELHI, JULY 11: BUSINESSLINE

Finance Minister Arun Jaitley on Tuesday urged banks and financial institutions to step up focus on improving credit flow to the unorganised sector and, thereby, help increase employment in the country.

Addressing a seminar to mark the silver jubilee of the Nabard-led self-help group-bank linkage programme, Jaitley said that the reality of India is that there are more people in the unorganised sector than in the organised.

"If the resources of banks and financial institutions through various schemes are diverted towards this (unorganised) sector, it will help create more employment," Jaitley said. This event was held on the eve of the 36th Foundation Day of Nabard.

Jaitley said he was hopeful that the Nabard-led SHG-bank linkage programme would further expand in the coming days.

Over a span of 25 years, the linkage programme has grown into a massive movement with 85 lakh SHGs across the country now a part of it.

The total loan exposure of the banking system to these SHGs is about ☐61,000 crore. The SHGs also hold about Rs 16,000 crore in savings in the banking system as of end-March 2017.

Jaitley said that there is a natural tendency for certain sections of society to be left behind in the growth story of a nation.

"This happens in spite of all our best intentions and various development schemes of the government. The Nabard-led SHG-bank linkage programme gains increased importance because it addresses these very sections of society which are excluded even after development," he said.

Anjuly Chib Duggal, Secretary, Department of Financial Services, said that the Centre was working towards linkage of the SHG movement with the social security schemes such as Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Jeevan Jyoti Suraksha Bima Yojana and Atal Pension Yojana.

"Apart from credit linkages, we are also offering occupational training, entrepreneurial training and financial literacy training to SHGs," she said

Through 470 offices of Nabard and SIDBI, schemes of relevance to SHGs are being provided. Also, efforts are on to facilitate linkage with more distant markets.

"Over a period of time, we are hopeful of making some of the SHGs become suppliers or buyers and make them work together to increase their heft and reach bigger markets."

There is also a need to help the members of SHGs grow beyond SHGs, she said.

"Although the SHG movement is tremendously empowering, it should not become a cocoon. We will look to push MUDRA and Startup India schemes to the SHG members who are looking to pursue individual entrepreneurship," Anjuly said.

Speaking on the occasion, Harsh Kumar Bhanwala, Chairman, Nabard, said that the SHG-bank linkage programme is not only about linkage, but is also about livelihood and financial literacy. As much as 90 per cent members of SHGs are women. The total fund-based business of SHGs is estimated at Rs 1 lakh crore, he said.

"The programme has matured into a source of social capital, finance capital and in recent years IT-based capital," Bhanwala said.

NPA mess: RBI has list ready of 48 corporate defaulters

Only 12 companies have come up so far, but the central bank will announce a second, third and fourth list in due course.

MONEYCONTROL.COM

The Reserve Bank of India has a list ready of 48 major corporate defaulters, sources have told CNBC-TV18.

Only 12 companies have come up so far, but the central bank will announce a second, third and fourth list in due course.

Meanwhile, as companies approach courts in connection with NPA cases, the government is keeping all options open.

A government official has told CNBC-TV18 that it will exercise more options in corporate bankruptcy cases, but will wait and watch.

It has a backup plan but right now has confidence in the courts.

Meanwhile, the Gujarat High Court on Friday adjourned the Essar Steel vs Reserve Bank of India (RBI) case by five days to July 12. The company is one of the major defaulters identified by the RBI.

The RBI had directed Essar Steel lenders to refer the debt-laden steel firm to the National Company Law Tribunal for insolvency proceedings.

India's banks to raise $23 b of loss-absorbing capital by end-2018: Fitch

OUR BUREAU MUMBAI, JULY 11: BUSINESSLINE

Fitch Ratings on Tuesday said it expects Indian banks to issue new loss-absorbing capital and debt instruments aggregating $23 billion by end-2018.

Overall, banks in the Asia-Pacific (APAC) region are expected to issue such instruments totalling $200 billion.

In its report on 'Regulatory Trends in APAC – July 2017', the credit rating agency observed that new and evolving regulations could put more pressure on banks, but will ultimately strengthen the financial systems.

"The main changes will be the agreed phase-in of higher capital requirements and — in Japan's case — higher total loss-absorbing capacity (TLAC) requirements.

"Fitch expects APAC banks to issue new loss-absorbing capital and debt instruments totalling $200 billion by end-2018 to meet the requirements. Banks in China, Japan and India will account for most of this issuance," the report said.

The agency said a focus on risk-weight calculations and robustness of models will also keep banks in the more developed markets busy over the next few years.

More jurisdictions are likely to implement bail-in legislation, but support is unlikely to disappear in most markets as the authorities remain reluctant to impose losses on senior creditors.

Rating changes

Most APAC banking systems are well-positioned to cope with pressures, but the potential for rating changes stemming from asset-quality issues is highest in India and China, said the agency.

According to Fitch, in India, where problems are concentrated among State-led banks, the government appears to be willing to provide capital to stronger banks to support growth, while providing weak banks with only the capital needed to meet minimum requirements — in order to encourage them to downsize and/or consolidate.

In China, risks are highest at second- and third-tier banks, which have weaker capital, larger exposure to shadow banking and higher reliance on short-term wholesale funding than the much stronger State-led banks.

Govt to push Banking Regulation Bill in monsoon session

PTI/BUSINESSLINE NEW DELHI, JULY 11:

The Finance Ministry is gearing up to introduce a host of Bills, including the Banking Regulation (Amendment) Bill, repeal of the State Bank of India (Subsidiary Banks) Act, 1959, among others, in the upcoming Monsoon Session.

Besides, it is working on the Banning of Unregulated Deposit Schemes and Protection of Depositors Interests Bill.

The Department of Financial Services (DFS) is preparing a draft Bill in this regard and will shortly approach the Cabinet for its nod, a government official said.

The proposed legislation seeks to provide a comprehensive code to ban unregulated deposit schemes and protect the interests of depositors.

The Bill stipulates that any deposit taker who promotes and accepts deposits in an unregulated deposit scheme may be punishable with imprisonment for a minimum term of two years, which may be extended to 10 years, and with a fine which may extend to twice the amount of aggregate funds collected from subscribers, members or participants in such schemes or arrangements.

The Monsoon Session of Parliament begins next week on July 17 and closes on August 11.

By all accounts, the most important legislative business of the session is going to be the replacement of the Banking Regulation (Amendment) Ordinance, 2017, with an Act.

The government in May promulgated an Ordinance authorising the Reserve Bank to issue directions to banks to initiate insolvency resolution process in case of loan default.

Non-performing assets (NPAs) or bad loans of public sector banks (PSBs) have reached “unacceptably high levels” of over Rs. 8 lakh crore, the bulk of which are in sectors such as power, steel, road infrastructure and textiles.

The Ordinance amended Section 35A of the Banking Regulation Act, 1949. It has inserted Section 35AA and Section 35 AB in the Act.

At the same time, repeal of the State Bank of India (Subsidiary Banks) Act, 1959, has been necessitated because of the merger of five associates with SBI, the official added.

Five associates and the Bharatiya Mahila Bank became part of State Bank of India (SBI) beginning April 1, catapulting the country's largest lender to among the top 50 banks in the world.

Next in the queue is the National Bank for Agriculture and Rural Development (Amendment) Bill, 2017, that was introduced by Finance Minister Arun Jaitley in the Lok Sabha in the Budget Session. The Bill seeks to amend the National Bank for Agriculture and Rural Development Act, 1981.

According to the statement of objects and reasons, the Bill proposes to empower the Central Government to increase the authorised capital of the National Bank for Agriculture and Rural Development (Nabard) to Rs. 30,000 crore, from Rs. 5,000 crore.

Besides, it would allow the transfer of RBI's balance equity of Rs. 22 crore in the bank to the Central Government.

The RBI holds 0.4 per cent of the paid-up capital of Nabard and the remaining 99.6 per cent is held by the Central Government. This causes conflict in the central bank's role as the banking regulator and the shareholder in Nabard.

The DFS, the official said, is also working on introducing an amendment in the Negotiable Instruments Act (NIA) in the upcoming session.

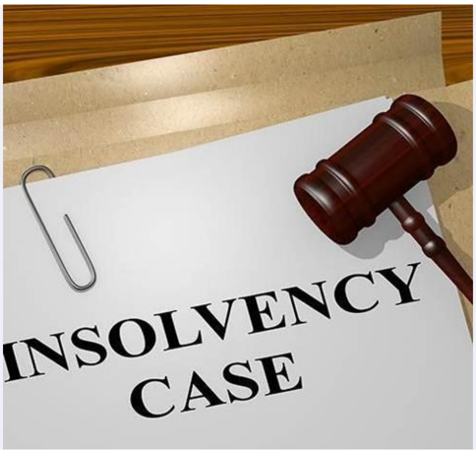
Jaitley had made an announcement to this effect in Budget 2016-17.

"As we move faster on the path of digital transactions and cheque payments, we need to ensure the payees of dishonoured cheques are able to realise payments. The government is, therefore, considering the option of amending the Negotiable Instruments Act suitably," Jaitley had said.

Another piece lined up for the Monsoon Session is the Financial Resolution and Deposit Insurance Bill, 2017. The proposed law deals with matters concerning insolvency of banks, insurance companies and other financial services firms under the Bankruptcy Code, 2016.

The Cabinet headed by Prime Minister Narendra Modi had approved the proposal to introduce the Bill in Parliament last month.

First test of new bankruptcy law offers cautionary tale



The new Insolvency and Bankruptcy Code aims to move cases of company failure into a single forum

MUMBAI, JULY 11: REUTERS/ BUSINESSLINE

In January, Innoventive Industries, a speciality steelmaker based in western India, was forced into the bankruptcy court by its lenders, testing for the first time new insolvency rules that aim to resolve India's $150 billion bad debt overhang.

The company, which makes steel tubes and auto parts for customers including Ford, Volkswagen and Tata Motors, posted its third straight annual loss in 2016, prompting ICICI, one of its lead lenders, to trigger bankruptcy proceedings early this year.

Nearly six months on the proceedings against Innoventive, seen as a test case for the first national bankruptcy law, are raising questions about the efficiency of the new regime that regulators are now compelling lenders to use to recover debts.

The new Insolvency and Bankruptcy Code aims to move cases of company failure into a single forum, replacing an archaic system of overlapping regulations under which banks, company promoters and other creditors could all initiate competing proceedings in different courts, tribunals and regions.

That system left India's Debt Recovery Tribunals vastly overstretched, with court buildings strewn with ever-rising pillars of dusty files, gumming up the flow of credit in the economy and discouraging new investment.

The World Bank estimated it took 4.3 years on average in India to resolve insolvency under the old laws, more than twice as long as in China. And average recoveries were just 25.7 cents on the dollar, one of the worst among similar sized economies.

The new regime aims to significantly boost recoveries and put a firm timeline around case resolution in the hope that this will help clean-up bank balance sheets and spur lending.

The Reserve Bank of India has already told banks to push 12 of the largest defaulters into insolvency, but experts worry the framework is largely untested and hampered by a shortage of experienced bankruptcy professionals. "I completely understand why they want resolution for large defaulters quickly because the balance sheets have to be cleaned up," said Ashish Chhawchharia, a partner at accounting and consulting firm Grant Thornton. "You cannot really push too hard, however, because if things go wrong people will start losing faith in the new code."

Flood of cases

Defaulters identified by the RBI are already being taken to the National Company Law Tribunal (NCLT), the forum now empowered to rule on these cases. Only a few dozen cases have been taken on by the NCLT so far, but a deluge could be in the offing. "We estimate at least 20,000 to 25,000 bankruptcy cases will come to the NCLT, if not more," said Nikhil Shah, a managing director at restructuring experts Alvarez & Marsal. "And at that point it would get crushed under the workload."

The new law mandates a 180-day deadline to resolve cases, but the Innoventive case, in which creditors are seeking to recover about $200 million, has already faced multiple delays.

Innoventive initially sought to block the matter under a six-decade old state law, and launched appeals in the High Court and an appellate tribunal, while creditors were divided on the terms of an interim financing deal, according to two sources close to the case. The company could appeal all the way to the Supreme Court, forcing lenders to seek an extension and jeopardising the resolution deadline, the sources said.

Chandu Chavan, the main backer of Innoventive, could not be reached for comments despite repeated attempts.

With loan syndicates in India typically comprising a dozen or more state-run and private banks, forging agreement between creditors is not easy.

For Innoventive, it was harder to get the 21 lenders in the room to agree on an interim financing package for the firm to operate during the insolvency process than to find a party willing to actually provide the funds, one of the sources said.

Bankers often lack authority to take decisions on writedowns and have to revert to their boards for approval, causing further delays, the source added.

Value erosion

Under the new system lenders are mandated to initiate liquidation proceedings if a case cannot be resolved within the 180-day deadline, with a 90-day extension granted only in exceptional circumstances. Such an outcome could result not only in job losses at companies that were still going concerns, but also steep losses for banks that have to sell assets piecemeal.

“We've already been in touch with all possible suitors," said one senior banker, describing the situation lenders often found themselves in when they tried to offload assets from liquidated firms. “It's not like you have a lot people waiting for these assets.”

Despite these concerns, M S Sahoo, chairman of the Insolvency and Bankruptcy Board of India, the government body set up to supervise the new code, said he was confident buyers would emerge under the new system. “Nothing develops in a vacuum.” said Sahoo. “Only when something is available will the market develop.” The NCLT would not be hit with a tsunami of cases, he added, as only large defaults will be handed to it.

Those involved in cases are also concerned by the lack of experienced insolvency resolution professionals - a domain in its infancy in India and dominated by mom-and-pop firms.

Dinkar Venkatasubramanian, a partner at EY, says a lack of professional indemnity insurance for insolvency professionals was a major deterrent for big accounting firms to take up the task. "The risk is significant," he said. "There exists litigation and reputational risk and the indemnity for IPs in the code is very generic."

Union Bank gets new Chairman

Kewal Handa

JULY 10: BUSINESSLINE

Kewal Handa has been appointed Chairman and part-time non-official Director of Union Bank of India. Handa is a qualified Management Accountant and Company Secretary and holds a Master's degree in Commerce. He has also completed IIM-Ahmedabad's Senior Management Development Programme. Handa was Managing Director of Pfizer India from 2005 to 2012. He was also Managing Director of Wyeth from 2009 to 2012. Handa has experience in finance, strategy, business development, mergers and acquisitions, banking and corporate affairs, among others.

AIBEA THIS DAY – 12 JULY	
1996	**Demonstration and Joint Rallies demanding implementation of Fact Finding Committee Report.**
1997	**Formation of Asian Bank & Financial Sector Bank Employees Organisation at Colombo. Com. Tarakeswar elected as President.**

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