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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

# 'This government wants to make India a gambling den'

**March 14, 2018 rediff.com Shobha Warrier**

**'In India, people save for their children's education or a daughter's marriage or for old age.' 'This is not America or Japan, this is India.' 'This is a conservative society and what we need is more regulation to safeguard and guarantee people's money.'**


**IMAGE: 'Representatives of the RBI are on all the boards of public sector banks and they know very well that Indian banks are giving loans to the gem and jewellery industry in unusual proportions in the last few years.'**

**'The RBI should have checked why there was this unusual increase in loans to this industry. But it didn't,' says C H Venkatachalam, general secretary, All India Bank Employees Association.**

With jewellers Nirav Modi and Mehul Choksi ensconced overseas, India is faced with yet another long of judicial and extradition proceedings to bring them back to face trial over their involvement in the Rs 12,400 crore letters of undertaking fraud in the Punjab National Bank.

Even as the multi-agency investigation into the scame is under way, **C H Venkatachalam**, general secretary of the All India Bank Employees Association, is clear in his mind about who is responsible.

"This government wants to bring in the FRDI bill in Parliament. This is going to cause unnecessary panic in the minds of people. It will also affect the confidence people had in public sector banks. If they feel banks are not safe, where will they keep the money?" Venkatachalam, *below*, asks **Rediff.com**'s **Shobha Warrier**.

- **Banks are audited internally and externally regularly. How come a scam of this magnitude was not detected by anyone?**

The Reserve Bank of India doesn't audit all the branches in the country; only a few branches are selected randomly.

It is definitely the fault of concurrent auditors who are external auditors not to have found a scam like this.

The practice of the chartered accountants is that they send their apprentices who do bank branch auditing like routine work.

Earlier, the RBI appointed external auditors from a very efficient panel of auditors. After liberalisation, the selection of auditors was transferred to the banks which is a serious flaw.

Only when somebody from outside checks, faults are detected. But when the banks themselves appoint the auditors, the result is also on expected lines.

This flaw was pointed out at that time itself to the government by us, but they were of the opinion that it was not necessary for the RBI to appoint the auditors.

If you look at the PNB scam, one branch gave a letter of undertaking in Mumbai based on which the foreign branches of other public sector banks gave advances to Nirav Modi to import.

When they do so, the loan amount is credited to the Punjab National Bank only as it is a nostro account.

A nostro account is the record of the bank whose money is at another bank and they are often used to simplify trade and foreign exchange transactions.

- **The LoUs were not shown up by the software…**

Even more shocking was that the password which was supposed to be a secret was shared by everyone in the branch.

It is said that even the companies owned by Nirav Modi had this password.

If this was what they were doing, what kind of banking is this? It is a total failure of banking itself.

Also, the nostro account is a very sensitive account and supposed to be under the watch of the foreign exchange branch, the head office of the bank and even the RBI.

Then, how come nobody noticed the fraud?

Either it is corruption or it is negligence.

First of all, a junior officer in a branch had no authority to give a LoU to the Nirav Modi company. Even if he had done this, somebody senior should have checked the mistake.

It is surprising that after accepting the LoU, the foreign branch had written a letter acknowledging and conforming that on the basis of the letter, they were giving credit.

This kind of a confirmation letter goes to the top official of the branch and not to any junior officer. All this needs to be investigated.

**RBI Governor Dr Urjit Patel.**

**'The RBI governor has not even opened his mouth so far about the scam. Why do we need such a Reserve Bank governor? Let him go,' says C H Venkatachalam.**

- **You had said the RBI should take responsibility and the RBI governor should quit?**

The Reserve Bank is the banker of all banks. They are the custodians of the money of all the people.

They are supposed to regulate and if they are not regulating banks, what is the point in having the Reserve Bank of India?

The job of the police is to catch the thief and if they can't do it, there is no need to have the police station.

I would say the Reserve Bank of India thoroughly failed in its job.

Representatives of the RBI are on all the boards of public sector banks and they know very well that Indian banks are giving loans to the gem and jewellery industry in unusual proportions in the last few years.

The RBI should have checked why there was this unusual increase in loans to this industry. But it didn't.

So, the RBI should take moral responsibility for a scam of this proportion.

When a rail accident happens, you ask the railway minister to resign. In this case, the RBI has failed completely in the overall supervision of banks.

The RBI governor has not even opened his mouth so far about the scam. Why do we need such a Reserve Bank governor? Let him go.

I am very clear in saying that the RBI should take moral responsibility and the RBI governor should go.

- **What about the finance ministry?**

Nirav Modi is not an unknown man. The finance ministry is also periodically reviewing all the banks. And this government has been frequently questioning the banks on their work.

After all, the government gave capital to all the banks after the NPAs (*non performing assets*) were made public.

Before recapitalisation, the government had asked the banks all the details like the balance sheet, performance, etc. They could have found out a fraud of this magnitude at that time.

**Nirav Modi is not the origin of the scam; he is the end of the scam,' says C H Venkatachalam.**

- **Do you also hold the government responsible for this fraud?**

In a sense, they were irresponsible in not knowing what was happening in a bank.

I am not saying that the government would know what was happening in every branch, but they should have noticed when loans were given to a particular sector in such large proportions.

The government cannot micro manage things, but at the macro level, they should have known.

The finance ministry and the industries ministry should have noticed that Indian banks were getting over exposed to the gems and the jewellery sector.

That is why we ask for a CBI enquiry on this fraud. More than that, there has to be a thorough probe on the banking sector itself by a Joint Parliamentary Committee.

We feel there is definitely something murky in the system. Will anyone believe that Nirav Modi will go to a branch and bribe a low-level officer?

Just look at the people with whom he had moved around. He is not the origin of the scam; he is the end of the scam.

- **The government says the scam started when the UPA was in power...**

Okay, it must have started then. That doesn't absolve you of anything.

You came in 2014. What did you do in the last four years?

Another thing is, not only Punjab National Bank but other banks also gave loans.

When you take a loan from a bank, you give all the details of your other loans too.

The banks are supposed to ask questions before giving loans amounting to crores of rupees. They are supposed to look into all the business transaction of his accounts. Why didn't they do it?

- **There is talk about privatising public sector banks to stop such scams. Is privatising PSBs the answer?**

**Absolutely not. I condemn the demand itself.**

There are two sides to all the scams and frauds. Who is on the other side? The private sector.

When that is so, how can you criticise the public sector alone?

Today, the government suspects fraud in the Rs 9 lakh crore NPA. We at the AIBEA have been shouting that there was a possibility of fraud and corruption in the whole business of NPAs.

Who are the defaulters? All from the private sector. Is the name of any public sector organisation in the list of defaulters? No.

## Is it a good idea to assess all bad loans above Rs 50 crore?

In fact, we have been demanding an assessment of all loans above Rs 10 crores!

When a loan above Rs 10 crore becomes bad, it has to be probed.

- ## Do you think recapitalisation of PSBs will solve the NPA problem?

The Basel norm is that banks have to have backup capital to support the loan. It is to support the bank in case it collapses which is basically meant for private banks. So, recapitalising public sector banks should not be looked at in the same context.

Private capital of a bank and government capital is different.

The capital of all the 20 public sector banks put together is only Rs 22,000 crores (*Rs 220 billion*). On the other hand, we give loans worth Rs 75 lakh crores (*Rs 7.5 trillion*). So, capital in government banks has no meaning.

Why do you have to recapitalise banks? It is only to adhere to international norms that the government gives more capital to banks. Otherwise, it has no meaning.

Some time back, three public sector banks had negative capital yet people did not rush to withdraw all the money because people knew the government would take care of the banks. Had this happened to a private bank, people would have panicked.

- **Do you think after all these mega scams, the public has lost trust in public sector banks?**

Yes, there is confusion and panic in the minds of people. After hearing about bad loans, people now feel that such banks will not function after some time.

When you hear about scams as big as Rs 14,000 crores (*Rs 140 billion*), the public tends to wonder about the fate of their savings.

Now the government is coming with the Financial Resolution and Deposit Insurance Bill 2017 in Parliament, which says if any bank gets liquidated, the RBI would use people's deposits to save the bank from liquidation.

This has created panic in the minds of people. It means the government will not bail out the banks, instead it will use people's money.

In 1960, when T T Krishnamachari was the finance minister, the AIBEA president raised the issue of many private banks in India collapsing at that time. It was after that Section 45 of the Banking Regulation Act was added as a special amendment.

Under the amendment, the government can tell the RBI to close the bank and merge it with another bank. So, from 1960, no bank has been liquidated in India.

Around 30 to 40 private banks collapsed later, but they were not liquidated; they were taken over by another bank.

But now, this government wants to bring in the FRDI bill in Parliament. This is going to cause unnecessary panic in the minds of people.

It will also affect the confidence people had in public sector banks. If they feel banks are not safe, where will they keep the money?

Is to force them to put all the savings in mutual funds and the share market?

The government should understand that the savings of the people are the social capital for the country's development.

If social capital goes into the share market for speculation, not only the individual but the country is also taking a big risk and it is very dangerous.

In India, people save for their children's education or a daughter's marriage or for old age.

This is not America or Japan, this is India.

This is a conservative society and what we need is more regulation to safeguard and guarantee people's money.

But this government wants to make India a gambling den. That's why we feel the government must change its economic policies.

## Banks' gross NPAs at Rs 8.41 lakh crore in December


New Delhi:

The gross non-performing assets (NPAs) of all the banks in the country amounted to Rs 8,40,958 crore in December, led by industry loans followed by services and agriculture sectors, government said today.

The gross NPAs or bad loans of scheduled commercial banks as on December 31, 2017 due to loans to industry were at Rs 6,09,222 crore, accounting for 20.41 per cent of the gross advances.

That was followed by Rs 1,10,520 crore (5.77 per cent) dues from services sector; Rs 69,600 crore (6.53 per cent) from agriculture and allied activities; Rs 14,986 crore from other non-food credit and Rs 36,630 crore (2.01 per cent) from retail loans, Minister of State for Finance Shiv Pratap Shukla said in a written reply in Lok Sabha.

The highest amount of gross NPAs was for country's largest lender SBI at Rs 2,01,560 crore. Among others, Punjab National Bank was at Rs 55,200 crore; IDBI Bank - Rs 44,542 crore; Bank of India - Rs 43,474 crore; Bank of Baroda - Rs 41,649 crore; Union Bank of India - Rs 38,047 crore; Canara Bank Rs 37,794 crore and ICICI Bank - Rs 33,849 crore.

Indian Overseas Bank bank had gross NPAs of Rs 31,724 crore; Central Bank of India Rs 32,491 crore; UCO Bank Rs 24,308 crore; Allahabad Bank - Rs 23,120 crore; Andhra Rs 21,599 crore and Corporation Bank Rs 21,818 crore.

Shukla said there are as many as 8,457 cases pending in the National Company Law Tribunal and 264 in the National Company Law Appellate Tribunal as on December 31, 2017, through which banks seek to recover their dues.

In reply to a question on write off by banks, of which SBI has the highest amount, the minister said that the country's largest lender had written-off Rs 20,339 crore (including through compromise) in 2016-17.

"This is 24.9 per cent of the amount written off by all PSBs in 2016-17, which is marginally lower than SBI's share in the total business of PSBs (26.3 per cent)," he added.

SBI has apprised that it has two-fold strategy for controlling fresh slippages and resolution of existing NPAs.

Further, government has recently announced PSBs reforms agenda for responsive and responsible banking, which encapsulates a synergistic approach for ensuring prudential and clean lending, better customer service, enhanced credit availability, focus on micro, small and medium enterprises and better governance, he said.

Also, Reserve Bank has issued a Prompt Corrective Action (PCA) framework to maintain sound financial health of banks.

RBI has placed eleven PSBs - Dena Bank, Central Bank of India, Bank of Maharashtra, UCO Bank, IDBI Bank, Oriental Bank of Commerce, Indian

Overseas Bank, Corporation Bank, Bank of India, Allahabad Bank and United Bank of India -under the PCA framework.

PTI

## Not privatizing PSU banks Modi govt's biggest failing: Morgan Stanley's Ruchir Sharma

New Delhi: Mint

Failing to reform India's banking system by privatizing the public sector banks has been the biggest shortcoming of the Narendra Modi government, Ruchir Sharma, head of emerging markets and chief global strategist at Morgan Stanley Investment Management said on Saturday.

Speaking at the Rising India Summit, Sharma said lack of banking sector reforms is the real big problem that has not been fixed in India. "Banking system is the archery; it lies at the heart of what a nation can do. It is the single biggest shortcoming of the last few years," he said.

When asked by the moderator whether this is the biggest missed opportunity by the Narendra Modi government where it could have utilized its political majority it enjoys driving through privatization of the public sector banks, Sharma answered in the affirmative.

Sharma said every country needs a few public sector banks to meet some social objective, but there is no country like India where the figure is so lopsided. "In India, two third of the assets are with the public sector banks. This is the highest in any democratic country in the world. The average across emerging markets is one third. It's not about public versus private, it's about a balance," he added.

Sharma said all incremental economic activity such as the massive retail lending, credit cards and trade finance is happening through private sector banking in India. "The banking system is privatized but it is happening with a huge cost where the public sector banks are not only destroyed in value but it is also choking the economic recovery," he said, terming the phenomenon "privatization by maligning neglect".

Giving examples of Italy and the US, Sharma said in major economies of the world until the banking system was fixed, it was very difficult for those economies to go back to their full potential.

Sharma however said the single biggest risk for India in 2018 is that we have a regulatory overkill. "Many public sector banks are getting completely frozen to lend. The side effects are that the access to credit is going to be directed more and more towards the companies with established credentials. When you have this kind of credit environment, it is the small and medium size companies which get hurt the most, when risk aversion sets through because a cost of making a bad loan is now almost like a criminal offence. This is what India has to be careful about," he added.

Dishing out an interesting statistics, Sharma said since 2014, 23,000 millionaires have left India. In 2017, 7,000 millionaires left this country-the largest number in recent times-compared to 4,000 in 2016. "In absolute terms, this is still behind China. But as a share of total millionaires living in this country, this is the largest compared to any nation in the world," he added.

Sharma said some may some may say this is a good thing as India is driving away the most corrupt from the country, but there is a side effect. "At the end of the day, you need your own domestic people to invest in this country. Foreign investment is needed, but it is the domestic investors who make a nation going forward," he added.

Sharma said India is entering a critical period where the global economy is doing well, but the country has not been able to fully participate in the massive global economic revival seen in the past 18 months or so.

Sharma said more than the growth disconnect with the developed world, India has to be more worried about the employment disconnect where unemployment is at a 40 year low in the developed world whereas, India keeps debating about lack of enough jobs.

"If you look at the success stories whether Japan, China or Taiwan, they all exported their way to prosperity by producing low end manufacturing goods where you get huge amount of employment growth as well. To say that we have missed the bus in this regard may not be correct because in our own neighbourhood, Bangladesh, Cambodia and Vietnam have picked up the low end manufacturing after China vacated it. For that we need to improve the infrastructure that we provide and the labour law that we have in this country," he added.

# Former SBI chairman Arundhati Bhattacharya blames frequent leadership changes for PNB type scams

MUMBAI: Economic Times

Former chairman of SBI Arundhati Bhattacharya today flagged concerns over the frequent leadership changes leading to a void at the top for months and lack of handholding for the incoming chief saying these issues hamper smooth functioning of the state-run banks.

Speaking in context of the Rs 13,000-crore scam at the second largest public sector lender PNB, she spoke on leadership as a matter that needs to be looked into, but was guarded on other contentious topics like privatisation of state-run banks and the tussle between the Reserve Bank and the finance ministry over the powers of the central bank.

"In public sector banks, the leadership gets changed too frequently. Very often, there will be a time when the top man goes and for the next one year, nobody comes in because it takes time to do the appointments," she said, speaking at an event organised by IMC at Mumbai University.

It can be noted that recently, there have been a slew of changes at the state-run banks' top leadership and many lenders, including those under the prompt corrective action framework for high NPAs, have been headless for months.

Bhattacharya, who retired last October as the chairman of the largest lender after a career of over four decades, said a newly appointed leader also needs a "handover time" where he works alongside the incumbent.

She cited the case of SBI's branch in New York, where it is mandatory for 45 days' "handover-takeover" and wondered how the chief of a large bank can take over overnight.

Without naming PNB, Bhattacharya said the recently discovered fraud is "unfortunate" and is the result of the lack of integration between the core banking software and the SWIFT messaging platform. In the case of two "disparate systems" being used for a same task, there has to be a reconciliation at the end of the day, which was lacking, she said. "Either they trusted people too much or they did not realise there was a gap over there. The fact is that (reconciliation) statement was not there. And that is how this fraud could go on for years without anyone detecting it because there was no record of this in the bank's books at all," the veteran banker said.

Service She said PNB was using an older version of the CBS platform and was in the process of integrating it with SWIFT messaging when the fraud was perpetrated.

The nearly Rs 13,000-crore PNB scam, allegedly perpetrated by jewelers Nirav Modi and his uncle Mehul Choksi in collusion with a few officials of the state-run bank came to light last month, wherein the duo is alleged to have used a key loophole on the international trade finance front to defraud the bank.

They allegedly got letters of undertaking without the required securities and also proper trade details in place.

It has also started a slugfest between government and Reserve Bank with each blaming the other. The executive started it off, wondering how the duo could evade regulatory gaze, and the latter hit back saying its hands are tied when it comes to regulating and making state-run banks accountable.

Bhattacharya, however, refused to speak on any of the issues. When asked if privatisation is a solution, she parried a direct answer saying governance and risk management structures at the state-run lenders needs to be looked into.

She was, however, quick to add that there is a "social responsibility" which PSBs are fulfilling and made it clear that she's against a "total dismantling" of the public sector.

She also said there is a need for the fiscal and monetary policies to be in sync and cited the example of countries like Greece which faced trouble because of a lack of cohesion within the larger European monetary Union

## Banking & Insurance Shouldn’t Be Mixed

**Man moves Delhi HC, narrates how wife was forced to take Insurance Policy for getting loan**

BY: AKANKSHA JAIN MARCH 15, 2018

A widower and father of two has moved the Delhi High Court praying for a declaration that insurance business conducted by banks is illegal and unconstitutional and stressing that banking should be done by banking professionals while insurance business should be carried out by insurance professionals for healthy co-existence of both the institutions and in the best interest of the citizens.

East Delhi resident Titus Abraham has moved Delhi High Court praying it to “quash the notification dated August 3, 2000 issued by the Ministry of Finance under section 6(1)(o) of the Banking Regulation Act 1949 specifying ‘insurance as a form of business in which it is lawful for a banking company to engage’, and all actions /orders/ circulars notifications issued by the respondents (Centre and the RBI) arising out of it as the same is ultravires"

The petition has been filed after Abraham's wife took a loan from ICICI bank for purchasing a car and was forced to take an insurance policy from ICICI Lombard only to get the loan easily. However, the insurance claim was denied after his wife died of cancer. Abraham, through his advocates Wills Mathews and Ginesh P, in his petition raised the substantial question of law whether the August, 2000 notification is contrary to the mandate of Section 2C of the Insurance Act 1938 and amounts to excessive legislation, is opposed to public policy and will come under Section 16 of the Indian Contract Act, 1872 on the ground of "undue influence" because of the fiduciary relationship existing between a bank and its customer

The petition impleads the Ministry Of Law And Justice, RBI, the Insurance Regulatory and Development Authority of India, ICICI Lombard General Insurance Company and ICICI bank.

Narrating his ordeal, Abraham said on December 22, 2015, his wife Merline Titus purchased a car for a total value of Rs.7.20 lakh and the ICICI Bank insisted the petitioner's wife to take Suraksha Insurance for the loan. Merline Titus remitted Rs. 4,32,390 by availing a vehicle loan from ICICI Bank Ltd. The loan was for tenure of 60 months with EMI of Rs. 9187.

In October, 2016, while selling the policy, ICICI Bank and the insurance company did not even care to enquire about the insured's physical fitness nor demanded any kind of medical certificate. In October, 2016, petitioner's wife passed away leaving behind him and their two daughters. The insurance company rejected his claim on the ground of pre-existing illness. Abraham said he has stopped his business as he is taking care of his daughters after the death of his wife. At the time of giving loan, the bank officials insisted that she take a Loan Suraksha Insurance from their own group company ICICI Lombard General Insurance Co. Ltd., as a precondition for sanctioning the loan. The petitioner was not interested in availing insurance policy but took the same under duress. As per respondent No. 6 bank's direction, the petitioner's wife have paid the premium of Rs.9,963.59 and signed all the papers they have given for.

The loan Suraksha Policy was valid from 29th December 2015 to 8 December 2020 having coverage on major medical illness and death of the insured. The insurance adviser from the respondent Nos.5 and 6 informed the petitioner and his wife that in case of any major illness or death of the insured, there would be no need to pay any further EMI and the bank would compensate and pay all the outstanding loan amount and interest

The petition relies on a news article titled "Bank Now Sell More Insurance Policies Than Individual Agents" published in an English business daily on 22nd April 2016.

He said after his wife passed away on 13th October 2016, while undergoing treatment for cancer, he requested the insurance company and the bank for sanction of the claim but the same was rejected.

He even requested the bank to refund Rs 1.28 lakh paid after the death of his wife, the insurer, but in vain and now he is not in a position to pay EMIs.

"The bank unduly influenced and compelled the petitioner's wife to take the insurance coverage from the insurance company associated with them. The petitioner's wife, being the needy to get the loan, was forced to sign the papers for Insurance. There is illegality and injustice in a banking company doing the insurance business or activities for promoting the insurance business," said the petition.

He also requested for a direction to the insurance company to credit the claim due and that the bank be directed not to take away the car his wife had taken.

| AIBEA THIS DAY – 17 MARCH | |
|---|---|
| 1955 | AIBEA leaders meet Justice Gajendragadkar regarding Banking Commission. |
| 1956 | Special Session of AIBEA at Patna to discuss wage cuts, bonus and DA etc. |
| 1988 | 5th Bipartite talks. BEFI gets injunction orders against AIBEA holding talks. |
| 1999 | Indefinite Strike call date announced – 7th Bipartite talks. |
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