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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Finance Ministry rules out privatisation and merger of public sector banks for next one year

Experts, including Reserve Bank of India's Governor Urjit Patel, have raised concerns on ownership and structure of PSBs

Beena Parmar, Moneycontrol.com

Even as voices on privatisation and consolidation of public sector banks (PSBs) grow louder, Finance Minister Arun Jaitley has ruled out any such plans in the next one year.

Since the Rs 13,000 crore-plus Nirav Modi-related fraud unearthed last month at India's second largest government-owned lender Punjab National Bank, multiple frauds have surfaced at various other PSBs as well. Experts, including Reserve Bank of India's Governor Urjit Patel, have raised concerns on ownership and structure of the banks.

"The Finance Minister has categorically stated that no public sector banks will be merged or privatised in the next one year. He said they want to improve the banks but there is no plan to privatise them for now, for one year at least," a bank union official who attended a meeting with the FM and nine union heads, said.

Former NITI Aayog vice chairman Arvind Panagariya in an interview with PTI had made a strong case for privatisation of public sector banks, saying, "I firmly believe that privatisation of all PSBs except perhaps the State Bank of India (SBI) should be on the election manifestos of all parties who wish to present themselves as serious candidates to form the government in 2019.

"The FM said 'we are not hurrying up to proceed with the merger because the banks are not in a good condition and hence there is no point in merging weaker banks'… Many banks are weak and there is no point in getting two weaker banks to get married to create an even bigger weak bank."

Over the last one year, about 12 weak PSBs have been put under Prompt Corrective Action (PCA) by the central bank restricting their lending and other business activities to some extent along with increased monitoring of the banks.

CH Venkatachalam, General Secretary of **All India Bank Employees' Association (AIBEA),** leading the delegation at FM's meet, said, "We met the Finance Minister to address our concerns on the PNB fraud and bringing back Nirav Modi (the alleged perpetrator of the fraud). He assured the investigations are going on…We have to await more action from the government."

According to Venkatachalam, the **FM also said that we cannot attribute the frauds limited to public sector banks only and that frauds can take place anywhere and ownership is not a factor**.

While questions have been raised on auditors of the bank as well as the supervisory team of the RBI, Patel has pointed out that RBI's legal powers to supervise and regulate PSBs are constrained and they cannot remove PSB directors or management, who are appointed by the government of India, nor can it force a merger or trigger the liquidation of a PSB.

Aadhaar-based UIDAI project architect Nandan Nilekani (also Infosys chairman) last week said that the "original rationale" for bank nationalisation has ceased to exist and that privatisation is the way forward for PSBs, which will also be in the taxpayers' interest to get them some value citing decline market share of PSBs.

Last year, many public sector bank chiefs were asked to submit memorandum of understanding (MoUs) to elaborate their strengths and weaknesses and also their possible outlook on merger options.

Mails sent to the finance ministry on the privatisation and consolidation plans remained unanswered.

Minister of State for Finance Shiv Pratap Shukla said in a written reply to the Lok Sabha on Friday, "Syndicate Bank, Canara Bank, Vijaya Bank and Dena Bank have apprised that they have not made presentations about their merger or consolidation to the Ministry of Finance."

While Jaitley has been vocal about consolidation of PSBs, he has maintained that they need to be strengthened first.

Last year, SBI's five associates and the Bharatiya Mahila Bank were merged with SBI, catapulting the country's largest lender to among the top 50 banks in the world.

Corporates Responsible for More Than 80% of Bad Loans of Public Sector Banks

Mar 26, 2018

One of the points that we have been making regularly in our columns and Letters is that public sector banks should not be lending to corporates. And now we have found more data to back it.

In a written answer to a question raised in the Lok Sabha, the government provided data regarding the accumulated bad loans across different areas of lending. Bad loans are basically loans on which repayment has been due for 90 days or more.

Take a look at Table 1.

Table 1:

As on March 31, 2017	Industry	Agriculture and Allied Activities	Services	Retail Loans	Other loans
Total NPAs	**4,70,084**	**57,021**	**84,686**	**23,795**	**5,470**

Source: Unstarred Question No: 4614, March 23, 2018

It is clear from the above table that lending to industry forms a bulk of the bad loans of public sector banks. The total bad loans of public sector banks as on March 31, 2017, had stood at Rs 6,41,057 crore.

This basically means that lending to industry forms 73.3% of the total bad loans of public sector banks. Or to put it a little differently, lending to industry forms nearly three-fourths of the bad loans of public sector banks. Take a look at Table 2, which basically lists out the proportion of bad loans that have accumulated for public sector banks, from different forms of lending.

Table 2:

Sector (As on March 31, 2018)	Proportion of bad loans in each sector
Industry	**73.33%**
Agriculture and Allied Activities	**8.89%**
Services	**13.21%**
Retail Loans	**3.71%**

Source: Author calculations on data taken from Unstarred Question No: 4614, March 23, 2018 and Centre for Monitoring Indian Economy

Table 2 tells us very clearly that the industry and services sector are together responsible for 86.5% of the accumulated bad loans of public sector banks. This basically means that Indian corporates (because while lending to the services sector also, banks are lending to corporates) are responsible for more than 80% of the bad loans of public sector banks.

In wake of PNB fraud, govt hits back at RBI Governor: Independence is what you do

CEA Arvind Subramanian's statement comes days after RBI Governor Urjit Patel pointed at the central bank's helplessness in dealing with public sector banks due to constraints of inadequate legal powers to supervise and manage them.

Aanchal Magazine | New Delhi | March 27, 2018 The Indian Express

Stressing the need for more coordination between the central bank and the government, Chief Economic Adviser Arvind Subramanian Monday said that independence of a central bank is not only acquired through law but also by actions and good decision-making. A series of bad decisions, he said, can impact the credibility of a central bank.

The CEA's statement comes days after RBI Governor Urjit Patel, in the wake of the fraud detected at the Punjab National Bank, pointed at the central bank's helplessness in dealing with public sector banks due to constraints of inadequate legal powers to supervise and manage them.

Responding to queries from students of Jesus and Mary College in New Delhi as part of a lecture series, Subramanian said: "Independence is not acquired through the law but a large part is acquired through reputation and the history of good and effective decision-making. When you say a central bank has credibility, it gets credibility not just because it's independent… After all, if you are independent and make a series of bad decisions, you lose credibility. So, what is important is not just what is there in the law but actual practice of a central bank."

He said not only "independence but also coordination (is) very important. Second, what is more important than independence is your credibility and reputation, and you can get that either legally or you can acquire it through actual practice".

Earlier this month, Urjit Patel had pointed to constraints in dealing with PSBs. Quoting the Detailed Assessment Report on the Basel Core Principles, he had said that the RBI cannot remove public sector banks' directors or the management who are appointed by the government. Nor can it force a merger or trigger the liquidation of a state-owned bank, he said, underlining that it also had limited legal authority to hold public sector bank boards accountable regarding strategic direction, risk profiles, assessment of management, and compensation.

Seeking more powers, Patel had said legal reforms are highly desirable to empower the RBI to fully exercise the same responsibilities for PSBs that now apply to private banks, and to ensure a level-playing field in supervisory enforcement.

Citing the historical reason for making central banks independent, Subramanian said that countries around the world wanted to make policy independent of election cycles.

"The question is: do we need more independent institutions like RBI… when countries around the world started making central banks legally independent, it was because they thought the economic argument for doing that, because they thought that politicians make decisions related to the election cycle… So, they thought they need independence to avoid policy driven by political cycles. So, I think that was done."

He said the emerging thought now is that central banks and governments need to cooperate more because the election cycle problems are not there anymore. "The other problem is that sometimes the central banks may have to do what governments can't do. Example, the Fed and the European Central Bank, they put their balance sheets at risk to stimulate the economy. Now if you have a very traditional notion of what central banks should do, that would be considered actually not the right thing to do. In some ways, our thinking is evolving in terms of how much independence and how much coordination should be between the central bank and the government," he said.

Subramanian also defended the multi-rate structure of Goods and Services Tax (GST), saying that a single rate of say 10 or 15 per cent will result in goods meant for poor also getting taxed at the same rate.

"Under the old system and under the new system, lots of commodities, about 50-60 per cent of the basket consumed by poor is exempted from the GST. So, essentially we have tried to protect the poor. But remember, this creates the challenge, there are some like you who say it's a regressive tax, but there are others who say — we must have a simple system, we must have one rate… if you have one rate and have a 10 or 15 per cent tax and then commodities consumed by the poor will also be taxed at 10 per cent. So, the political compromises. And therefore, you need either a zero-rate or a very low rate for commodities predominantly consumed by poorer people. By and large, food is exempt, health, education are exempt," he said.

He said that from a development perspective, the country needs to have more income taxes and direct taxes. "I think one of India's big challenges is how do we get more and more people pay income taxes. I think that's very critical, and we are really falling short on that. Any direct tax system must encourage voluntary compliance to get more and more taxpayers in, and this is something we should be focusing on," he said.

Public sector banks pay much higher audit fees than private banks

Private banks have a single auditor while PSBs have multiple auditors

Rajesh Bhayani t March 27, 2018

Audit fees public sector banks (PSBs) have paid are much higher than those shelled out by their private sector peers.State Bank of India (SBI) and Bank of India paid over Rs 2.16 billion and Rs 896 million in 2016-17, while HDFC Bank and ICICI Bank forked out Rs 25.8 million and Rs 78.3 million, respectively.

Private banks have a single auditor while PSBs have multiple auditors.Amit Tandon, founder and managing director of ·Institutional Investor Advisory Services (IiAS), a proxy advisory firm, said: "Higher fees paid by PSBs can be because of more branches, multiple auditors they appoint, fees prescribed by the Reserve Bank of India (RBI), and large numbers of physical audit of branches."

However, he added there was a disconnect between audit fees and the strength of audit controls. "The amount and the average fraud size are significantly larger in public sector banks," he added.The RBI has categorised PSBs into three groups for appointing statutory central auditors (SCAs) with small lenders requiring four SCAs and big lenders six.

The largest — SBI — can engage as many as 14 SCAs.Ashvin Parekh, managing partner, Ashvin Parekh Advisory Services LLP, said: "In regard to the audit process applicable to PSBs when compared to private banks, due to structural issues it may be perhaps true that with the involvement of far too many people and non-uniformity of quality, the overall audit process, though extensive and expensive, may not have the same outcome in terms of quality."

Public sector banks audit more than 30 per cent of branches, and also appoint auditors from non-metros, while private sector banks audit less than 5 per cent of branches due to centralised banking systems.An auditor aware of how bank audits are done said: "Multiple auditors handling different regions or different aspects reduces control and coordination. There is also a strong lobby of auditors, which is why the work of audit remains in a few hands. If one sees the names of auditors PSBs appoint, there are only a few top firms."

Many smaller audit firms also simultaneously ask their clients to obtain finance from banks, which can be a conflict of interest, he said.All banks now have core banking software and visiting branches is not of much use unless there are some doubts or issues.

Private banks' auditors, therefore, focus on centralised data while PSBs prefer physical audits. Tandon suggested "one auditor for each bank, small or big, PSB or private".

Auditors of PSBs, however, said the RBI and Institute of Chartered Accountants of India (ICAI) decided the number of auditors and their fees. According to them, there are issues of internal governance in banks, internal systems, processes, controls, and management, some of which may pass the auditor's radar altogether.

Shailesh Haribhakti, managing partner, Haribhakti & Company LLP, said: "Auditors are responsible for what is mandated to them but the decision on fees etc is a regulatory issue. We do raise flaws in banks systems with banks wherever we come across."

A senior public sector banker said concurrent audit at branches was a detailed process, for which banks had the discretion to engage external auditors, which pushes up the auditors' fees.

After Paul Krugman warns of 'mass unemployment', Raghuram Rajan says AI threatens skilled jobs

Days after nobel laureate Paul Krugman warned that India could end up in mass unemployment if it fails to upgrade manufacturing and services, former rockstar banker Raghuram Rajan says that highly skilled jobs are at heightened risk due to Artificial Intelligence.

By: FE Online | March 23, 2018

Raghuram Rajan says that advances in AI, robotics will further change nature of jobs and highly skilled jobs are at heightened risk due to artificial intelligence and machine learning. (Image: Reuters)

Days after nobel laureate Paul Krugman warned that India could end up in mass unemployment if it fails to upgrade manufacturing and services, former rockstar banker Raghuram Rajan says that highly skilled jobs are at risk due to Artificial Intelligence. According to the top economist, advances in AI, robotics will further change nature of jobs and highly skilled jobs are face increased risk due to artificial intelligence and machine learning.

On similar lines, nobel laureate Paul Krugman had said that artificial intelligence poses significant risks to India in the future. "There is this concept called artificial intelligence that you should be wary of. In future, while diagnosis may be outsourced to a doctor in India, it could also go to a firm based on artificial intelligence. Things like this could be a cause for worry for Indian services sector," Paul Krugman said at an event last week.

"There has been a steady loss of jobs in routine and unskilled jobs, routine skilled jobs are also being replaced," Raghuram Rajan said at the event organised in Kerala. Sharing his valuable insights, Rajan said that jobs immune from the threat of AI are the ones that require high intelligence and creativity as jobs that have human empathy will stay relevant.

He also raised concerns over the death caused by driverless cars, especially after an Uber-monitored driverless car led to death of a pedestrian in Arizona. Rajan said that we the adoption of technology to the complicated real world needs more time. " Are we pushing too fast too quickly? Crowded streets of daryaganj need more time," the ace economist noted.

Speaking specifically of India specific factors Raghuram Rajan said that the transition to technology is slower due to politics. "Indian government still works with physical files, in the age of technology," Rajan said noting that in a conservative organization, a physical file provides confidence that it has been read.

However, Raghuram Rajan said that the fears of job losses is overstated due to hype. "We always believe that AI will come after 15 years," Rajan said adding that technologists always want us to believe that AI will come faster than it actually does.

Punjab National Bank could be labelled defaulter if it doesn't pay Union Bank Rs 1,000 crore by 31 March

Business FP Staff Mar 26, 2018 First Post

The Punjab National Bank (PNB) could be labelled a defaulter if it does not pay the Union Bank of India about Rs 1,000 crore by 31 March, according to a media report.

PNB has to settle claims against letters of undertakings (LoUs) issued by it earlier.

If PNB fails to do so, the Indian banking sector, already troubled by frauds, will witness an unprecedented event, where, for the first time, a bank will be "technically described as defaulter", reported The Economic Times.

Auditors could insist the LoUs, maturing before 31 March, be described as NPAs for the current financial year, the newspaper added.

"For us, it's a genuine claim on PNB backed by documents. It is not a fraud in our books. We will take the auditor's view. However, we don't want to list PNB as a defaulter. We are expecting some intervention from either the government or RBI so that there is a resolution by March 31," Rajkiran Rai, MD of Union Bank was quoted as saying in the report.

In February, state-owned Union Bank said it had an exposure of $ 300 million (around Rs 1,915 crore) to the Rs 11,400-crore PNB fraud case, but stressed that its money was safe and that it would recover it, the ***PTI*** had reported. "The outstanding exposure related to the incident is approximately $ 300 Million and the Bank is fully secured by LoU /LC /Other documents and fully confident to receive the payment," said the Union Bank statement.

The State Bank of India (SBI) too has an exposure of at least $200 million to the PNB fraud involving Nirav Modi-helmed companies. SBI, in February, said that it had an exposure of $212 million to the PNB with respect to the fraudulent transactions, but did not have any direct exposure to Modi. “We don’t have any direct exposure to Nirav Modi, but we do have some exposure to PNB,” SBI chairman Rajnish Kumar was quoted as saying by the ***PTI***.

Last week, Union Bank's shares fell to an over 11-year low after the Central Bureau of Investigation (CBI) registered a case against a private company for allegedly cheating eight banks, including the Union Bank, of 13.94 billion rupees. The CBI registered a case against Hyderabad-based Totem Infrastructure and its directors post a Union Bank complaint, which said the lender had been cheated of about 3.14 billion rupees.

AIBEA THIS DAY – 27 MARCH	
1958	Observance of All India Demands day by working class fraternity. AIBEA participates.
1969	AIBEA Central Committee meets at Delhi.
1987	Over 50000 Bankmen and Women participate in march to parliament at Delhi on the health of the banking industry.
2000	7th Bipartite Settlement concluded.
2002	Strike in Andhra Bank on Recruitment , D-unionization plan of the Management etc.
2007	Com. M K Bhat, (77) Former President, Corporation Bank Employees Union passes away.

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