AIBEA's Banking News

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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Bank account portability still some time away

SURABHI , BUSINESSLINE 4 5 2018

Banks must set up dedicated teams for account number portability -

Technical issues and the large number of bank accounts are major challenges

Unhappy with your bank's services and want to switch to another bank while retaining your account number?

Bank account number portability, as it is called, may still be some time away, with technology and the sheer number of bank accounts in the country seen as the biggest obstacle.

The debate, which was started by former Reserve Bank of India Deputy Governor SS Mundra, has now been rekindled by the **All India Bank Employees Association.**

In a letter to RBI Governor Urjit Patel, the association has called for bank account number portability as "an antidote to several restrictive practices" by banks.

"Banks are not customer-friendly to small account-holders and have put in restrictions on minimum account balance and have a plethora of service charges. Often they don't even pass on concessions to customers," said C.H Venkatachalam, General Secretary, **AIBEA**, adding that there is sufficient technology for bank account number portability.

"This is the logical next step after digital banking," he told BusinessLine.

Earlier in May 2017, Mundra had also similarly asked banks to look into bank account number portability as it would improve customer service by enhancing competition.

While the RBI had in 2012 allowed intra-bank portability allowing customers to shift their bank accounts to another branch of the same bank without undergoing the full know-your-customer process, it has remained silent on the issue of inter-bank portability.

A costly affair

Bankers say that while it will be a very useful facility for consumers, it could be a costly exercise.

“While this is an extremely positive consumer-centric move, there could be some challenges in implementation with regard to technological readiness of the banks,” said Rajan Pental, Group President and Head of Branch and Retail Banking at YES Bank, adding that from a technical perspective, it will require customers to have a unique identification and regulatory changes allowing banks to rely on KYC done by the other bank with recourse.

“The regulator and banking industry will need to resolve issues such as the new bank honouring existing standing instructions, EMI and ECS mandates, honouring cheques issued or given as PDC and portability with or without history,” he further said while welcoming such a move.

Core Banking System

“The account numbers and banking codes of most banks are different. These will have to be streamlined in some way for customers to switch between banks while retaining their account numbers,” pointed out another banker, adding that even the Core Banking Systemof banks will have to be aligned.

Additionally, the sheer number of bank accounts in the country, which Venkatachalam pegs at over 80 crore, could pose a problem.

“The numbers are too large and every bank will have to have a dedicated team for account portability. Further, with concerns of money laundering and tax evasion, there will still have to be some scrutiny,” noted another executive with a public sector bank.

He also pointed out that the lack of financial literacy, especially in rural areas could pose a challenge, where customers could become a target of mis-selling.

However, experts say that with the use of Aadhaar and the National Payments Corporation of India (NPCI), bank account number portability is quite possible, though, perhaps, in a gradual manner.

Empowering Bangladesh's Female Garment Workers

May 3, 2018 RUCHIRA TABASSUM NAVED
SADIKA AKHTER, DHAKA

While Bangladesh's textile trade has put money in women's purses and challenged a patriarchal society to evolve, economic empowerment has not greatly improved gender equality and female wellbeing. On the contrary, women with jobs in the country's largest industry are now imperiled on two fronts.

– For four decades, the garment industry has powered Bangladesh's economy and put more people to work than any other sector. Women in particular have benefited from this hiring boom, and today, a majority of the industry's four million employees are female.

While much has been written about exploitation in the garment industry, there is a paucity of data on the health and safety implications for women in this sector. Our organization, icddr,b (International Centre for Diarrhoeal Disease Research, Bangladesh), is working to change this. In a series of recent studies, we explored the health and welfare issues – both physical and emotional – faced by women who produce clothing that they will never be able to afford.

The women we spoke with shared markedly similar stories. Most were or had been married, are poorly educated, and migrated to cities from poverty-stricken households in Bangladesh to work and support their families. Most interviewees reported working at least ten hours per day, every day. Many work overtime to meet their daily production quota of 100 shirts per hour. And, depending on their position, they spend the entirety of their shifts either standing (if they are quality inspectors), sitting (if they are machine operators), or moving (if they are factory-floor helpers).

But what makes our studies unique is the information we collected about what happens after work. And here, the data are even more striking.

For starters, most married female workers' workdays don't end when their shift at the factory does. Back at home, they are expected to cook, clean, and perform other household chores – work on top of work that leaves them exhausted and prone to illness. Pregnant women in particular suffer significant health problems, such as hypertension, owing to their brutal schedules. And yet most women, needing the income, continue working and hide their pregnancies as long as possible, out of fear that supervisors will fire them when they find out.

This also takes an emotional toll. Working mothers from rural villages report experiencing high levels of guilt, anxiety, and stress caused by being away from the children whom they often have to leave in their home village, because they cannot afford – in terms of time or money – to care for them in Dhaka.

Two out of five workers show suicidal tendencies. Yet the factory health-care systems that we have studied do not treat mental illness as a serious problem. In fact, most factories do not have any mental-health-care provisions at all for their workers. As a result, most women suffer in silence.

Finally, our research identified a disturbing correlation between employment in the garment industry and violence (physical, emotional, and sexual) against women. A staggering 43% of respondents said they had been sexually assaulted by a spouse during the previous year. To put this figure in perspective, the national average for this form of violence is 13%. While we don't have the data for a conclusive assessment of why rates of abuse are so high in the garment trade, the data are consistent with the prevailing popular view that women in this field are somehow associated with sex work and sexual promiscuity.

There is no doubt that women in Bangladesh have earned a degree of autonomy and financial independence from their participation in the garment industry. But, as our data illustrate, these gains have come at a cost. And, although activists and industry insiders recognize that attitudes and abusive practices toward female workers must change, there is currently no consensus about how to proceed.

We think it is time to change that, and a good place to start would be by pushing multinational firms to make gender equality a high priority. Many of the global brands that rely on Bangladesh's factories have committed to gender parity in their corporate offices. They should do the same on the production side, where managerial positions are occupied almost exclusively by men, a disparity that reinforces the gender imbalance elsewhere in society.

But perhaps the most important change to be made is to engage men in a dialogue on gender. In several African countries, gender-sensitization initiatives have reduced discrimination and violence against women. One program in West Africa, for example, brings husbands and wives together for mediated "dialogue sessions" to improve women's role in financial decision-making. To make similar gains in Bangladesh, profound changes in policies and programs are needed. The garment industry and men more broadly must commit to the goal of women's empowerment.

After nearly 40 years on the job, women are the driving force behind Bangladesh's most important industry. But at the moment, they are paying too high a physical and emotional price.

Rise in bad loans impairs monetary policy transmission: RBI paper

RBI research paper says the asset quality of banks deteriorated steadily since 2011

A bank with low default risk in its loan portfolio will be able to pass on interest rate changes of the RBI symmetrically on its deposits and loans, said the research paper

May 02 2018

Mumbai: Asset quality issues in the banking system, with the rise in gross bad loans, impair monetary policy transmission in India, according to a research paper by the Reserve Bank of India staff.

“The key findings of the study are that deterioration in the health of the banking sector at the initial stages impairs monetary transmission through interest rate channel as banks are able to charge extra credit risk premium for possible loan losses. However, when NPAs keep rising, banks are unable to protect their net interest margins (NIMs) due to competitive pressures, but they become risk averse and cut sharply their lending, which impacts monetary transmission through bank lending channel,” the paper concluded.

The paper was part of the *RBI Occasional Papers*, which is a research journal of the RBI, containing contributions of its staff. These papers reflect views of the authors.

For the study, quarterly data of banks were assessed between April 2010 and June 2017.

The paper noted, in the second sub-period starting July 2015, banks were not able to protect their NIMs as competitive environment limited on how much extra credit risk premium they would charge to make up for the loan losses. In this period gross NPAs were higher.

According to the research paper, the asset quality of banks deteriorated steadily since 2011, the pace of worsening accelerated following the withdrawal of forbearance for restructured loans in April 2015 and the central bank’s asset quality review in the later part of 2015.

Currently, banks are sitting on a stressed assets pool of over Rs10 trillion.

Movements in NIMs of banks are one of the key indicators of effectiveness of monetary transmission, the paper said.

A bank with low default risk in its loan portfolio will be able to pass on interest rate changes of the central bank symmetrically on its deposits and loans. In contrast, banks with high NPAs will seek to build up provision by increasing risk premium on performing loans, pushing up interest rates and hence the NIM, it said.

"In the process, notwithstanding lower funding costs in response to the policy rate cut by the central bank and comfortable liquidity conditions, banks may not reduce their lending rates or may reduce them only partly, thereby impeding monetary transmission," it said.

Aadhaar is still mandatory for new bank accounts

Individuals eligible for enrolling in Aadhaar have to submit the number, or proof of application for Aadhaar enrolment, which should not be older than six months

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May 01 2018

If you want to open a new savings bank account, you need to produce your Aadhaar as well as PAN (permanent account number) or Form 60, according to the updated know-your-customer (KYC) guidelines issued by the Reserve Bank of India (RBI) on 20 April.

The new norms are, however, subject to the final Supreme Court judgment on Aadhaar, the RBI said in its circular. "The government had under Prevention of Money Laundering (PML) rules mandated linking of existing bank accounts with Aadhaar, but Supreme Court had extended the deadline. The RBI has now clearly set out that a new bank account can’t be opened without Aadhaar,” said Shilpa Mankar Ahluwalia, partner, Shardul Amarchand Mangaldas & Co., a legal firm.

Individuals eligible for enrolling in Aadhaar have to submit the number, or proof of application for Aadhaar enrolment, which should not be older than six months.

Other officially valid documents such as passport, driving licence and voter’s identity card, can be used when you are submitting the proof of application for Aadhaar enrolment or Form 60 instead of PAN.

If a person is not eligible for Aadhaar, or is a non-resident, submitting PAN or Form 60 along with a certified copy of an officially valid document is sufficient. Aadhaar is not mandatory for residents of Jammu and Kashmir, Assam and Meghalaya too.

“We were already asking for Aadhaar for new accounts. We’ve been emphasising on it when PML rules were amended last year,” said the compliance head of a private bank, who didn’t want to be named.

“There is still some confusion as the circular states that it will come into force as soon as it is published on the website, while also saying that it is subject to the final judgment of the Supreme Court. We are seeking clarifications from RBI,” the bank official said.

For existing account holders, submitting Aadhaar is not mandatory until the Supreme Court gives its final judgment.

For insurance plans

The Insurance Regulatory and Development Authority (Irdai), through a circular dated 20 March, clarified that Aadhaar is not compulsorily required at the time of buying a policy, and that the consumer is allowed 6 months from the date of commencement of account-based relationship to submit her Aadhaar number and PAN or Form 60. For existing policies, the date of linking Aadhaar has been extended until Supreme Court’s final judgment.

Core sector growth slows to 4.1% in March

PRESS TRUST OF INDIA
NEW DELHI, MAY 01, 2018

Eight sectors grow 4.2% in FY18

The growth of eight core sectors slowed to a three-month low of 4.1% in March due to weak performance in six sectors including coal, crude oil and natural gas.

The other sectors which showed slower growth rates were refinery products, steel and electricity.

The growth rate of the eight infrastructure sectors, including fertilizers and cement, was 5.2% in March 2017, according to data released by the Commerce Ministry on Tuesday. The previous low was 3.8% in December 2017.

Cumulatively, the eight core sectors grew 4.2% in 2017-18. The growth was 4.8% in the previous fiscal. The core sector growth would have an impact on the Index of Industrial Production (IIP) data as these eight segments account for about 41% of the total factory output.

Fertilizer, cement rise

Only the fertilizer and cement sectors reported healthy numbers, growing 3.2% and 13% respectively in March.

Coal, natural gas, refinery products and steel production growth slowed to 9.1% , 1.3%, 1%, 4.7% respectively in March.

Electricity generation growth rate too decelerated to a growth of 4.5% as against 6.2% in March 2017.

There were many learnings from fraud, says PNB chairman Sunil Mehta

Sunil Mehta, non-executive chairman of PNB says, the Nirav Modi fraud is an opportunity for the bank to relook at some of the processes and make sure growth from here on is strong

May 04 2018 | Alekh Archana

live mint

Mumbai: Punjab National Bank (PNB), which was hit by a $2 billion fraud that surfaced in February, has managed to overcome challenges. In an interview, the bank's non-executive chairman, Sunil Mehta, said that PNB has now strengthened its internal control processes and is prepared to pursue growth opportunities. Edited excerpts:

What are the changes that are taking place at PNB after the letters of comfort (LoC) fraud discovery?

There were many learnings from that issue as to what we need to address in terms of control processes and audit standards. All of those are being addressed, including the use of technology. The entire back-end was looked at to see what needs to be done so that the back-end becomes much stronger. In terms of reconciliation, or in terms of whatever process that needs to be independently reviewed at the back-end, those have all been institutionalized.

The statutory auditor and concurrent auditors are taking an in-depth look at the weaknesses that were there in the processes that were there. It is a very close interaction between the management, the internal, concurrent and statutory auditors on what rectification needs to be done.

Has PNB honoured the letters of undertaking (LoUs) of other banks?

The statement that the bank had made was that we will honour all bona fide obligations of the LoUs that we had committed to. The total amount of LoUs that were due to banks was $2.07 billion. Of this, we have paid

$1.9 billion. This is about eight days old. So I would imagine that whatever was the difference should have been paid in the intervening period.

When this particular issue surfaced, we had to go through all our records and go from 2018 backwards to 2011 to see all the transactions. We had to do the reconciliation. That took time. By end of March, when we finished the reconciliation, prima facie whatever were the bona fide transactions have all been honoured.

What transactions are not bona fide?

If you go into the transaction on the entire buyers' credit, the way it was structured, the way it was given, we have to look at every element, whether it was completely compliant with all the regulations. The process will take some time. The investigative authorities are doing what they are supposed to be doing. The forensic auditor is looking at the forensic piece. If anything is reported which suggests that there needs to be a further review or dialogue with a counterparty bank, that will be done.

What next for PNB?

The potential for the bank has always been high and continues to be high—strong brand, 7,000 branches. Customer loyalty has been very strong. Despite this issue of the fraud, we had credit growth of close to 10%.

It is an opportunity for us to relook at some of the processes that need to be embellished to make sure that growth from here on is strong and robust and to see how we can position our bank accordingly. We are working on that. It means deciding how we reskill people, how we bring in new technology and use data analytic and artificial intelligence not just in sales but also in risk processes.

We also must make sure we capture the low-hanging fruit… (which) comes from improving our balance sheets through recoveries. The fourth piece is looking at our entire underwriting and sales processes.

Time to do away with priority lending norms

The banking sector should be allowed to grow its balance sheets, and do business with reference to the bottom lines

Public sector banks have underperformed on the total priority sector target of 40% since 2012

May 03 2018 | Tulsi Jayakumar

live mint

The Reserve Bank of India (RBI) has recently tightened priority sector lending (PSL) norms for foreign banks in India .

Foreign banks with more than 20 branches in India will now be required to extend a portion of their loans to small and marginal farmers as well as micro enterprises from fiscal year 2018-19, as per the respective sub-sectoral targets. Those with less than 20 branches will also need to fulfil the overall PSL norms of 40% of adjusted net bank credit (ANBC) in a phased manner by 2020.

However, foreign banks have cited their lack of knowledge, and fear of stressed assets, as reasons for their reluctance to lend to these sectors.

The impact of priority sector loan targets on banks' credit risk management strategies in India has been commented upon by the International Monetary Fund (IMF).

In a recent report, the IMF, raising concerns regarding the role of the public sector in the financial system, has advised the RBI to review its PSL policy to allow for greater flexibility in meeting targets. It also suggests a gradual reduction in PSL as a means to move funds into "more productive activities", and greater participation of the private sector in capitalizing public sector banks, together with full capitalization.

What is the truth? Are PSL norms responsible for banks’ stressed assets? Is there a business case for greater flexibility in targets for PSL, if not a complete removal of PSL norms?

A perusal of the RBI’s *Trend And Progress Of Banking In India* reports over the last decade reveals that public sector banks have been continuously underperforming on the total priority sector target of 40% since 2012, while private sector banks have continuously lent more than the mandatory target of 40%, except for two years. Foreign banks also outperformed their mandated target of 32% throughout the decade till 2015-16, as well as the higher targets required later.

However, all banks have defaulted on their sub-sectoral targets, especially that of 18% for agriculture, in most years.

This appears strange, since paradoxically, priority sector loans have contributed far less to the gross non-performing assets (NPAs) of all three categories of banks than non-priority sector loans. In fact, public sector banks had a large proportion of NPAs among their priority sector loans (50%) in 2012, a figure that had come down to 24.1% in 2017. Non-priority sector loans contributed to 82% of NPAs in the case of private sector banks in 2017, against the 18% of NPAs in the case of priority sector loans. Foreign banks had a comparable figure for NPAs within their non-priority loans.

Thus, priority sector lending may not be responsible for compromising banks’ credit risk minimization strategies, or risk accumulation. Yet, most bankers seem reluctant to lend to the priority sectors.

An informal chat with bankers reveals that the problem with priority sector loans is the lack of understanding of the sub-sectoral target groups, especially agriculture and the small and medium sector, as also weaker sections. A foreign bank, desirous of opening a bank branch in some remote area to service agricultural borrowers, neither understands its borrower, nor is clearly aware of the legal provisions to recover stressed assets.

Further, given the vagaries of the monsoon that agriculture is susceptible to and the undiversified risk portfolios in such rural areas, the credit risks for such banks from such PSL would be extremely high.

The same would be the case for PSL to the micro, small and medium enterprise (MSME) sector. The sector, with its unorganized operations and lack of proper accounting records and financial statements, poses higher costs and greater risks in credit disbursement.

Little wonder, then, that foreign banks have exhibited a reluctance to extend their bank branches, with the number of foreign bank branches in India falling to 286 on 31 January 2018, compared to 317 in FY 2016.

Thus, while priority sector lending, by itself, may be seen as serving the purpose of directed credit within a developing country like India, there appears to be a genuine business case for allowing flexibility in sub-targets for various categories of bank priority sector lending.

Banks should be allowed to choose the category they wish to lend to. Foreign banks may then choose to lend in the form of export credit (which was a sub-sectoral target for foreign banks prior to 2012, and was later removed), rather than to agriculture.

Similarly, private sector banks may choose to lend housing credit in urban areas, rather than being forced to lend agricultural finance. The government may rely on specialized institutions such as the National Bank for Agriculture and Rural Development (Nabard) to fulfil sectoral lending targets, while at the same time ensuring structural reforms in these sectors to make lending to them more viable.

It is time the banking sector in India is allowed to grow its balance sheets, and do business the only way that it ought to be done, namely, with reference to bottom lines.

PNB scam: CBI to soon file charge sheet against 19 arrested

The CBI is all set to file a charge sheet against 19 people arrested in the over Rs13,000 crore Punjab National Bank (PNB) scam case, which allegedly involves Nirav Modi, Mehul Choksi

Nirav Modi, Mehul Choksi allegedly got Letters of Undertaking (LoUs) and foreign letters of credit (FLCs) of $2 billion issued in favour of foreign branches of Indian banks based on fraudulent claims

May 02 2018 | PTI

live mint

New Delhi: The CBI is all set to file a charge sheet against 19 people arrested in the over Rs.13,000 crore Punjab National Bank scam case, which allegedly involves billionaire jewellers Nirav Modi and Mehul Choksi, officials said on Wednesday.

The agency has to file the charge sheet within 90 days of the arrest, they said, adding that the Central Bureau of Investigation (CBI) is likely to meet the deadline.

The probe against those absconding, such as Modi, Choksi and their relatives, is still on, and the agency may take time to finalise their roles in the case, they said.

The probe is vast but the roles of those arrested will be summed up in the charge sheet, the officials said.

The agency has arrested 19 people, including PNB officials and top honchos of the firms of Modi and Choksi and Modi in connection with the case.

The CBI arrested former PNB deputy manager Gokulnath Shetty, single window manager Manoj Kharat, and Hemant Bhat, the authorised signatory of Modi's firms, the officials said.

Vipul Ambani, the president (finance) of Modi's Fire Star Diamond along with executive assistant Kavita Mankikar and senior executive Arjun Patil, CFO of Nakshatra group and Gitanjali group, Kapil Khandelwal and the manager of Gitanjali group Niten Shahi were also taken into custody by the CBI in February, besides others, they said.

Choksi and Modi allegedly got Letters of Undertaking(LoUs) and foreign letters of credit (FLCs) of $2 billion issued in favour of foreign branches of Indian banks based on fraudulent claims.

The accused PNB officials allegedly did not enter the instructions for these LoUs in their internal software to avoid scrutiny. They were sent through an international messaging system for banking called SWIFT, which is used to pass instructions among banks globally to transfer funds.

An LoU is a guarantee given by an issuing bank to Indian banks having branches abroad to grant short-term credit to the applicant. In case of default, the bank issuing the LoU has to pay the liability to the credit-giving bank along with the accruing interest.

The PNB officials allegedly sent these messages to Indian banks —Canara Bank, State Bank of India, Bank of India, Axis Bank, Allahabad Bank — located in Antwerp, Hong Kong, Bahrain, Mauritius, Frankfurt.

AIBEA THIS DAY MAY 5	
1921	Com. G G Mehta, former President, AIBEA (date of birth)
1948	Com. Vijayan, President All India UCO Bank Employees' Federation (date of birth).
1980	Central Committee meets at Delhi.
1999	4th round of 7th Bipartite talks.
2008	BP Talks with IBA

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