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HN Sinor resigns from Banks Board Bureau after surprise changes in top management of state-run banks

By Sangita Mehta, ET Bureau | May 12, 2017,

MUMBAI: Veteran banker HN Sinor has resigned from the Banks Board Bureau (BBB), said two people with knowledge of the matter. Sinor didn't respond to a message seeking comment.

The BBB, which is headed by former comptroller and auditor general Vinod Rai, was established in April 2016 with an agenda to take on the the administrative task of appointing top executives and overseeing governance standards at banks, freeing up the government. The BBB has played a key role in recommending .top-level appointments at state-run banks since then.

According to the people cited above, his departure followed recent, surprise changes in the top management of state-run banks. They referred specifically to chief executives of two large banks being shifted to lesser roles.

But, according to the people cited above, BBB members were disappointed that they were not consulted nor informed prior to the transfers cited above. Rai could not be reached for comment. The BBB spokesperson didn't respond to queries.

Last week, Usha Ananthasubramanian was transferred to Allahabad Bank from Punjab National Bank and Melwyn Rego to Syndicate Bank from Bank of India, both CEOs moving to head up smaller lenders. Before this, in the middle of March, the government had issued orders swapping the CEOs of Indian Bank and IDBI Bank—MK Jan was asked to move to the latter with K Kharat taking his place.

"Members of BBB were not kept in the loop about the transfer even as one of the functions of BBB is to advise government on top-level

appointments," said a senior bank executive. "When BBB was formed, the general impression was that the government would distance itself from the appointments of the top management and the task would be entrusted to BBB."

The government had said last week that the transfers were aimed at having chief executives with enough length of tenure at the bigger banks so they can have a long-term strategy to deal with problem loans, one of the key concerns of the administration. The government has put together a package, including an ordinance empowering the central bank to take stronger action, aimed at resolving the bad asset situation. Stressed loans of banks have crossed 20% of the total loan book and provisions on on these is eating into their earnings.

Sinor, with four decades of experience in the banking sector, was handpicked by KV Kamath to head ICICI Bank when he was executive director of Central Bank of India. He was later appointed CEO of the Indian Banks' Association lobby group and subsequently CEO of the Association of Mutual Funds of India.

The other members of the BBB are AK Khandelwal, former chairman and managing director of Bank of Baroda, and Roopa Kudwa, former CEO of Crisil. Ananthasubramanian, Rego and Kharat were among the five CEOs selected by the government in August 2015 under Mission Indradhanush that appointed CEOs from the private sector.

RBI puts restriction on Uco Bank's business, asks board to take corrective action

By Atmadip Ray, ET Bureau | May 12, 2017,

KOLKATA: Reserve Bank of India has put restriction on Uco Bank's lending and branch expansion plans as the state-run lender made net losses for the two successive fiscal amid severe stress on asset quality.

There would be check on management compensation and directors' fees as well as the sector regulator has invoked prompt corrective action (PCA) for the bank, aiming to bring it back on recovery path.

Uco has become the second lender to face business restrictions after IDBI Bank after RBI revised its PCA framework last month.

The central bank of Asia's third largest economy has been on a mission to clean up the banking system which saw a surge in stressed-assets.

Uco's gross non performing loans stood at Rs 22541 crore at the end of FY17, which was 17.12% of total advances. The NPA ratio was one of the poorest in the industry. It was 15.43% a year ago and 17.18% at the end of December last year.

It reported fourth quarter loss of Rs 588 crore on dipping income compared with Rs 1715 crore loss in the year ago period. Its net annual loss stood at Rs 1851 crore for FY17 as against Rs 2799 crore in the preceding fiscal.

Uco board would now have to review its business model under RBI's guidance and chart out a roadmap for achieving medium and long term viability to make the bank profitable again. It has to activate a plan to recover loans and undertake a business process re-engineering.

In a regulatory filing to stock exchanges, the bank said that RBI has initiated prompt corrective action in view of high NPA and negative return on assets. "These measures aimed at improving performance of the bank and to strengthen internal controls of the bank," it said.

Its total business stood at Rs 332940 crore with advances at Rs 131655 crore. Capital adequacy under Basel III was 10.9%, rose from 9.63% a year ago.

Uco's board has approved the issuance of 75 crore fresh equity shares to raise capital by way of follow-on public offer or institutional placement or preferential allotment. The government has infused Rs 1150 crore in March by subscribing its preferential shares.

Indian banking won't be the same again if RBI gets to clean the bad loan mess. Here's why

By Saloni Shukla & MC Govardhana Rangan

THE ECONOMIC TIMES

Celebrations over the ordinance to clean up the banks' bad loans mess is quickly giving way to fear. Some bankers are disappointed they didn't get yet another scheme to kick the can down the road, promoters are worried about losing their fading jewels, potential insolvency professionals are cheering and the conservatives worry the regulator is tying itself in knots.

A sign of things to come is in the Reserve Bank of India's Friday tweaking of the Joint Lenders' Forum's (JLF) functioning when it imposed a penalty

on rogue banks that won't implement the consensus decision and stripped bank boards of their power to overrule the forum's decision. If the regulator has its way in driving banks to insolvency courts to sort out defaults, Indian banking won't be the same again. The clear message from the government— it has run out of patience and the empowerment of the regulator should get banks on their toes.

"The bank boards are the ones that should be doing this job and they haven't done it," says Krishnamurthy Subramanian, professor at the Indian School of Business, Hyderabad. "So you have to come up with a mechanism where these things have to get moving and that is where RBI is taking control of these. It is good but direct action should happen only in extreme cases and should not be a common occurrence."

After years of dithering, the government last week pulled the plug on banks reluctance to recover bad loans due to fear of witch-hunt by investigative agencies and the spectre of losing thousands of crores in write-off of asset value. As there were more than 10 banks in big loans consortium, companies were gaming the system by pitting one bank against the other.

"The issue was after coming together, the decisions were not getting implemented," says Chanda Kochhar, chief executive at ICICI Bank. "At JLF meetings, resolution options were discussed but after that the respective approvals from banks were not coming or, in various cases even if approvals came, it just took very long to implement them."

Banking inertia led to stressed assets rising to 12.3 per cent of total loans, choking credit at a reasonable cost even to viable new projects. An alphabetical soup of restructuring schemes made banks live in denial, and over a period of seven years, lost more due to delay in decision making.
It is a common knowledge that investment decisions — be it equity or debt — are prone to mistakes. But the investigative agencies in their zeal do see a lot of banking decisions with a jaundiced eye, which unnerved banks. More so, the arrest of IDBI Bank officials in the Kingfisher case has frozen the state-run banking system.

They were demanding that Oversight Committee under the aegis of RBI be set up and they sign on the restructuring plans of all variety. Since the regulator did not want to be seen as being part of commercial decisions, it turned a Nelson's eye to the demand. With additional powers, it is expected to set up a few such panels that could be the bankers' shield pending the amendments to the Prevention of Corruption Act, which may prohibit arrest of a government staff till he is found guilty.

"This will help to distance the government from whatever decisions are taken because any decision taken by the government on terms of resolution or haircuts on NPAs would have been hugely controversial," says TT Ram Mohan, professor at the Indian Institute of Management, Ahmedabad. "If the RBI sets up a committee, people will think it will be impartial and independent and not susceptible to political influence."

The RBI may have been given the mandate to set up committees, but the question is whether banks would get comfort.

"Again the bankers are expected to take the decision not the RBI," says Rajesh Narain Gupta, managing partner, SNG & Partners, a law firm. It is like passing the buck. "There is a committee, but will RBI say that if the OC takes a decision, they will not be liable, I have my doubts."

VALUATION OF ASSETS

Whenever a banker has to deal with a defaulter, he rather loved to restructure a loan —that is extending the tenor of payments and lowering of interest payments —than recovering. Because recovery involved negotiating the value of the asset with a prospective buyer who often negotiated for invariably lower market rates than the book value.

Restructuring is a win-win situation for the banker as well as the defaulter. This prevented banks from writing down the value and taking a hit on their profits, and the defaulter continued to own the asset and secured an easier repayment term. "For many of these bad loans, the market value would be, let's say Rs 50-60 on Rs 100, and the RBI has been asking banks to sell it to ARCs and take a haircut,'' says Subramanian of ISB. "But the problem is if they do that, they will take a big hit on their profits, and the defaulter continued to own the asset and secured an easier repayment term. "For many of these bad loans, the market value would be, let's say Rs 50-60 on Rs 100, and the RBI has been asking banks to sell it to ARCs and take a haircut,'' says Subramanian of ISB. "But the problem is if they do that, they will take a big hit on their profits and they have not had the intention to do it because they can kick the can down the road."

If RBI forces many of these cases to insolvency courts, then the banking industry could see the next round of provisioning as more assets would be valued at half their values.

PROMOTERS' FEAR

Unlike in the Western world where the debt holder was more powerful than an equity owner, in India, the promoter who defaulted continued to preside over the operations of a company.

Although banks were legally empowered to throw out equity owners, they did not attempt it because the snailpaced judiciary harmed banks' interests instead of helping them.

Unscrupulous borrowers gamed the judiciary to their advantage as they continued to milk the assets and siphoned off funds as banks watched haplessly.
That is set to change taking Indian banking to international best practices if the RBI pushes a few cases to the Insolvency courts. "The potential for abuse by the promoters is narrowing with time," says Abhijit Joshi, founding partner of Veritas Legal, a law firm.

"There will be pressure either to rehabilitate or wind up. If all the schemes are implemented the way they are intended, in the next decade you will see the systemic issues will be far reduced."

CAUTIOUS RBI

Powers vested with the RBI to direct banks to take cases to insolvency proceedings has rattled many saying that the regulator may be trespassing into the territory of the regulated.

The central bank would be exposing itself to charges of favouritism if it directs one company or the other to be taken to insolvency court. In the world of corporate rivalry, the reputation of the regulator can be torn to pieces.

"RBI is fairly careful about these things and I don't think they will act in haste," says KVS Manian, head of corporate banking at Kotak Mahindra Bank. "I don't think RBI will jump in tomorrow and say these are the 10 cases I want to take to IBC. I don't think the regulator will jump in and exploit their right just because they have it."

But the fact that the RBI and the government are getting into the act should send shivers down the spines of unscrupulous promoters who believe they have a 'divine right' to continue even after running an enterprise aground. All that is needed is just one rul ing where a big promoter who was hitherto invincible gets thrown out.

"I can see the level of nervousness in the borrowers as many may get into serious trouble," says Joshi of Veritas. "Borrowers ability to manipulate the system will slowly but rightly diminish."

Onus on states to push labour reforms

THE ECONOMIC TIMES

NEW DELHI: The onus of driving big-bang labour reforms, which could bring India's hiring norms in kilter with flexible global practices, rests with the states now as the Centre lacks the required Upper House majority to push such a bill, and isn't keen on an encore of the experience on the land acquisition law.

Furthermore, with the National Democratic Alliance (NDA) in power in a number of big states, New Delhi believes it will be easier to drive legislative changes in labour laws at the state level to enhance the ease of doing business.

A senior government official told ET that the Centre is not immediately keen on bringing labour law amendments to Parliament. "Some work has been done on codifying labour laws and reducing 44 legislations into four codes. However, in terms of progress on legislative action, it is still an issue whether it will pass the muster in Rajya Sabha, because NDA by itself does not have the numbers, and, therefore, there is some hesitation," the official quoted above said. He was responding to a question on the delay in bringing the labour codes, which are ready, to Parliament for discussions.

The labour ministry is ready with the two labour codes, one on wages and the other on industrial relations, for several months now. The ruling NDA had attempted to steer changes in the United Progressive Alliance's (UPA) land acquisition law under pressure from states, but the lack of adequate numbers forced it to backtrack. Amendments are now under the consideration of a joint parliamentary committee.

The BJP-led NDA government, after coming into power in 2014, had brought in nine main amendments to the 2013 legislation through an ordinance, and subsequently as part of a The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement (Second Amendment) Bill, 2015. However, due to stiff opposition from various political parties, the government agreed to drop most of its contentious amendments to the Land Acquisition Act of 2013, bringing back the crucial clauses related to consent of affected families and social impact assessment (SIA).

The official said that the way forward for labour reforms in the country is through states. "We are now encouraging other states to take the Gujarat approach and at least bring in flexible labour laws in the special economic zones. Once the principle has been established through Gujarat's reforms, the Centre will give the permission. If we have three-four states doing this, competitive pressure will build on the others to act," he said.

Banks don’t need to wait 90 days to start loan recovery

THE ECONOMIC TIMES

NEW DELHI: Banks can initiate loan recovery proceedings without waiting for an account to be formally classified as non-performing, as the latest amendments to banking rules allow for faster resolution of their bad debt problem, a senior government official said.

Under Reserve Bank of India rules, a loan becomes non-performing if the interest or instalment of principal remains overdue for more than 90 days. “Under the ordinance, we have clarified that the default will be considered as per bankruptcy laws, which means if the payment is missed it turns into a default the next day,” said the official.

This provision was inserted into the Banking Regulation Act through last week’s ordinance so that banks can plan their remedial action in advance.

India’s banks, especially staterun ones, are sitting on a mountain of bad debt, hurting their financial performance and ability to lend. While issuing the ordinance — the amendments empower the RBI to issue directions to banks for resolution of stressed assets — the government said it is committed to expeditious resolution of stressed assets in the banking system.

If there is a case where lenders are of the opinion that they need to look at other measures, including change of management, to recover their arrears from a defaulting company, they can now go ahead without waiting for the 90-day period to end before initiating the resolution process. “It is not that they (banks) will know only after the 90 day period that the account is stressed,” he said.

The Insolvency and Bankruptcy Board of India (IBBI) said the ordinance goes by the definition of ‘default’ as in the Insolvency and Bankruptcy Code. This means even if an asset in not classified as an NPA, it can still be taken up for the resolution process.

“The ordinance clearly states that, and there is no ambiguity,” said IBBI chairperson MS Sahoo. It is up to the banks to take a call whether it is the right time to really invoke bankruptcy or other options, he added.

Some experts, however, sought more clarity.

“The Reserve Bank should clarify what should be the provisioning requirement for companies going under bankruptcy in the first day of default, in the event a bank decides to file it the same day,” said Sapan Gupta, partner at law firm Shardul Amarchand Mangaldas & Co.

Earlier this week, a senior finance ministry official said the RBI will identify cases of bad debt to be taken up for resolution under the new NPA ordinance in consultation with the Indian Banks’ Association.

Brexit impact: Banks planning to move 9,000 jobs out of UK

REUTERS, LONDON, MAY 8

THE HINDU BusinessLine

13 major banks now indicate they will move jobs; StanChart and JPMorgan latest to detail plans

The largest global banks in London plan to move about 9,000 jobs to the continent in the next two years, public statements and information from sources show, as the exodus of finance jobs starts to take shape.

Last week Standard Chartered and JPMorgan were the latest global banks to outline plans for their European operations after Brexit. They are among a growing number of lenders pushing ahead with plans to move operations from London.

Goldman Sachs chief executive Lloyd Blankfein said in an interview that London's growth as a financial centre could "stall" as a result of the upheaval caused by Brexit.

Thirteen major banks, including Goldman Sachs, UBS, and Citigroup, have given an indication of how they would bulk up their operations in Europe to secure market access to the European Union's single market when Britain leaves the bloc.

Talks with financial authorities in Europe have been under way for several months, but banks are increasingly firming up plans to move staff and operations.

AIBEA THIS DAY – 13 MAY	
1955	PNB Employees Union in Punjab reorganized at Jalandhar. G L Kakkar and P R Bhatia elected President and General Secretary.
1978	17th Conference of AKBEF at Kottayam. Com. P S Sundaresan addresses. Com. A V G Nair and T K V Nair elected President and General Secretary. Labour Life released.
2008	National Convention of Trade Unions at Delhi; AIBEA/AIBOA participate.