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36 posts of PSB directors lying vacant: AIBEA

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Thirty six posts of directors in public sector banks (PSB) haven't been filled for a long time, said a top leader of a major bank union.

According to C.H.Venkatachalam, General Secretary, All India Bank Employees' Association (AIBEA), the Bank Nationalisation Act/Banking Companies (Acquisition and Transfer of Undertakings) Act provides for appointment of a workman employee representative and an officer employee representative as directors on the Boards of all the PSBs.

"None of the 18 PSBs have a workmen employee representative and an officer representative as a director on their Boards. In all 36 posts for bank directors are lying vacant for a long time," said Venkatachalam on Wednesday.

He said that there were 18 PSBs each with a Board strength ranging between 7-14 directors, including the Chairman, Managing Director(s), Executive Directors, nominees of the RBI and the Central government.

The Supreme Court recently ordered the Reserve Bank of India (RBI) to provide a list of loan defaulters and its inspection reports in this regard to those who seek them under the Right to Information (RTI) Act.

On Board members being provided with the RBI inspection reports into their banks, Venkatachalam said: "The RBI inspection reports are placed on the table on the day of the Board meeting. But the bank management does not give the Board of Directors enough time to go through the voluminous report. The reports are taken back at the end of the meeting."

Most customers upset over service charges levied by banks: RBI study

G Naga Sridhar Hyderabad | May 01, 2019

BusinessLine

More than 30% of the respondents said that information about service charges was not shared by banks at the time of a/c opening

A majority of customers are upset over the service charges being levied by banks under various categories.

This is one of findings of a pilot study commissioned by the Reserve Bank of India on charges levied for basic banking services.

More than 25 per cent of the respondents expressed their discontent over charges such as penalty on non-maintenance of minimum balance, cash deposit charges at home and non-home branches, cheque return charges (deposited by the customers), and for signature verification.

The study revealed that 72 per cent of the respondents felt the frontline staff of the branch was the main source of information in this regard.

No transparency

There is a need for greater transparency on the quantum of charges being levied. More than 30 per cent of the respondents indicated that information about service charges and fees was not shared by the banks at the time of opening an account. Any subsequent changes were also not informed to them.

The findings of the study, revealed by the RBI last week, have also been corroborated by the quantum of complaints received by the banking ombudsman during 2017-18, which was released by the central bank last week. Complaints on ‘non-observance of fair practice code’ continued to account for the highest share of total complaints received across the country at 22.1 per cent.

This, along with other grounds, such as ‘failure to meet commitments’ and ‘non-adherence to BCSBI codes’, constituted 31.3 per cent of the total complaints.

“Focussed action by banks is necessary in this regard to ensure that the staff, especially at customer touch points, are equipped with the requisite skills and are adequately trained,” the RBI said.

The purpose of the pilot study, conducted in Mumbai city, was to ascertain customer feedback and need for rationalisation of charges.

Penalty collected

During 2017-18, public sector banks and major private sector banks collected nearly Rs.6,000 crore as penalty for non-maintenance of minimum balance charges, as per the data available with banks.

If ATM withdrawal charges and cash transaction fees, among others, are also included, this escalates to an even bigger amount.

Bad debt at US banks rises on higher credit card losses

Bloomberg | May 01, 2019 BusinessLine

For the biggest US banks, not all consumer debt is created equal. Credit card losses are outpacing auto and home loans at a rate not seen in at least a decade. The question is whether banks' plastic problem is an outlier or an omen.

Fall in bankruptcies

For now, there is no cause for panic. A strong US economy and low unemployment mean most consumers are able to stay current on debt payments – new foreclosures and bankruptcies fell to the lowest level in at least 15 years in 2018. Yet, the uptick in card losses is unmistakable. Credit reporting company Experian said some of the blame goes to banks offering credit to riskier borrowers, and the Federal Reserve has noted a spike in late payments by the elderly.

"We do see card delinquencies a little higher and a slight uptick in the most recent couple of quarters," said Matt Komos, TransUnion's Vice-President of Research and Consulting, adding that he doubts the trend is a harbinger of bad news for banks. Delinquencies, while moving upward, are probably hitting a more normal level for the amount of credit that's out there.

The four largest US banks had almost $4 billion in charge-offs from credit cards last quarter, and just $656 million from all other consumer lending. That's the biggest gap since at least 2009. Card charge-offs now make up more than 80 per cent of total consumer credit costs, up from 67 per cent three years ago.

While the card losses are noteworthy, they are not enough to drag down what's been an otherwise stellar run of profits at the top lenders.

JPMorgan Chase & Co said last month that profit from its consumer division jumped 19 per cent in the first quarter, while at Bank of America Corp that figure surged 25 per cent.

Big banks are also stressing that loss levels are not outside the range they expected. Some of the deterioration in credit quality comes from growth: Lenders have piled into credit cards in recent years while pulling back on auto and student loans. Bank of America and JPMorgan, two of the largest US mortgage providers, posted recoveries of delinquent debt in their residential home loan portfolios in the first quarter.

“For us, the US consumer has always been strong and confident, and even if were not at all-time highs in confidence, we’re still very high,” JPMorgan Chief Financial Officer Marianne Lake told investors in April. Generally, the data is – even some like housing and autos that have not necessarily been super strong – is looking encouraging.

While provisions tied to consumer loans made up the majority of major banks’ credit costs in recent years, investors have grown increasingly wary of deteriorating commercial credit. Some bank executives have warned of the growing influence of non-banks in the leveraged-lending market, for example, while others have cautioned against the risk of fallen angels, or bonds rated in the BBB zone that get downgraded to junk.

Slowdown in spending

And as credit costs increase, many of the biggest banks in the US are also experiencing a slowdown in spending on their cards, meaning they will reap fewer of the fees they charge merchants whenever a consumer uses their card at checkout.

“We see solid overall economic growth with some slight moderation,” said Sachin Mehra, CFO for Mastercard. “We are still monitoring a number of items as it relates to the economy, such as ongoing trade negotiations and other economic and political factors that could impact growth over the longer term.”

Shared prosperity? Billionaires under fire confront wealth gap at Milken Conference

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The wealth on display this week at the annual Davos-style conference organized by Michael Milken, once of junk-bond fame, is capturing a moment in our age of growing inequality

In addition to the gap between the rich and poor, gender equity in the workplace was a theme of this year's conference

In Beverly Hills, the chicken Caesar salad costs $25.95.

Stephen Schwarzman, with a net worth of $14.3 billion, could buy one for all 329 million people in the U.S. today — and then do so again tomorrow for 222 million of them.

The wealth on display this week at the annual Davos-style conference organized by Michael Milken, once of junk-bond fame, is capturing a moment in our age of growing inequality. For the first time in Milken Institute Global Conference's two-decade-plus history, Schwarzman and the other billionaires and mere multimillionaires here find themselves confronting uncomfortable questions about the source of their wealth: modern American capitalism itself.

That chicken Caesar at the Beverly Hilton? The price breaks down to almost four hours of work at the federal minimum wage.

It's not a huge surprise that billionaires find themselves on the hot seat this year. It is, after all, the first Milken conference following the rise of Congresswoman Alexandria Ocasio-Cortez, a self-described socialist who's rocketed to national fame. Senator Bernie Sanders, who also holds socialist views, is running for president. Lawmakers are grilling bank chiefs over the gap between the tens of millions they take home and the fraction made by their rank and file. And national debates are raging over access to health care, affordable housing and university degrees free of crushing debt.

‘Shared Prosperity’

The conference reflects Michael Milken’s relentless ambition to become the ultimate problem-solving capitalist. Panelists and attendees include bankers, investment managers, politicians, entrepreneurs, entertainers and athletes. The theme of this year’s gathering, where tickets start at $15,000: “Driving Shared Prosperity.”

The concern, as attendees sipped craft whiskeys, dined on poke and crab cakes, and took selfies with “Shark Tank” star Kevin O’Leary: Those outside the Beverly Hilton may not feel the prosperity is all that shared.

“If you look at the right wing and the left wing, what’s really coming is class warfare,” Alan Schwartz, a managing partner at investment firm Guggenheim Partners, said on a conference panel Tuesday. His colleague Scott Minerd, the firm’s chief investment officer, said in an interview that “the disparity in wealth is so extreme, it’s feeding populism.”

Wealth Concentration

The gathering lures an unusual concentration of wealth, with at least 11 of its speakers listed on the Bloomberg Billionaires Index, with a combined net worth exceeding $100 billion — Schwarzman, of Blackstone Group LP, and Apollo Global Management LLC’s Leon Black among them. In a year when billionaires are hot political targets, income inequality was on the minds of many speakers and attendees.

Some expressed concern about the potential economic impacts of the growing gap between the rich and poor. Others defended the capitalist system and dismissed proposed solutions, such as raising taxes on the wealthy.

“Soaking the rich doesn’t work,” Ken Griffin, the billionaire founder of investment firm Citadel, said Tuesday in an interview with Bloomberg Television from the conference.

Griffin himself has been the focus of a debate on taxing the wealthy. A proposed tax on so-called pieds-a-terre gained traction after Griffin, who lives in Chicago, purchased a 24,000-square-foot Manhattan penthouse for a record $238 million, making it the priciest U.S. home. The planned levy was eventually replaced by a one-time mansion tax that's considered a less-onerous alternative.

American Dream

His comments contrast with those of billionaire Ray Dalio, who last month sounded the alarm on capitalism's flaws and advocated for some higher taxes on the wealthy, among other solutions.

Speaking at the conference Wednesday afternoon, the Bridgewater Associates founder said the country has to agree on a way to promote the lower half of the population to keep the American Dream alive.

"If we don't agree, we'll have some form of a revolution that would be to abandon capitalism, to go to the opposite extreme," Dalio said. "If you have a population where there's a large wealth gap and you have an economic downturn, it's almost reliably there is conflict."

Griffin, during an on-stage interview with Milken earlier Tuesday, said it's education, not the capitalist system, that's broken in America.

He also pointed to the economic and humanitarian crisis in Venezuela, where the opposition leader has called for a military uprising in an effort to unseat socialist President Nicolas Maduro, and said younger people in the U.S. don't appreciate the downsides of socialism like previous generations did.

The audience then applauded after Milken played a video of Margaret Thatcher lauding capitalism.

Ivanka Appearance

Some attendees discussed plans for helping the underprivileged. Speaking on a lunchtime panel Monday, Ivanka Trump, daughter of and adviser to billionaire President Donald Trump, touted an education-reform plan that included increased federal spending on vocational training.

“This tight labor market is creating a great moment for us” to make changes, she said, citing job vacancies that exceed the number of unemployed workers in the U.S.

In addition to the gap between the rich and poor, gender equity in the workplace was a theme of this year’s conference. Citigroup Inc. co-sponsored an Equality Lounge at the conference, where cushions read “Add Women to Every Equation” and a set of scales were left imbalanced with rose-colored jellybeans to reflect pay inequality.

Even with all the lip service paid to correcting societal ills, much of the conference was aimed at the very privileged. On panels, executives pitched services such as selfie-friendly helicopter rides. One touted the benefits of micro-dosing LSD. And, on Monday morning, a handful of attendees meditated to the sound of chiming bells, while others networked nearby over a spread of bagels and coffee. By Wednesday, attendees were snacking on make-your-own avocado toast.

For some attendees, capitalism itself — along with the taxes wealthy people already pay, and the social programs they fund — are the answers for combating America’s problems.

“I’ve seen the American dream work out,” said Griffin, who started his trading career from his Harvard dorm room and told Michael Milken that he now has in his office a poster of Milken’s deals. “What we should really focus on is economic freedom.’’

Firms Must Value Workers Like Shareholders, Says Raghuram Rajan

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Once again, we're debating the purpose of corporations. On one side, progressives such as Sen. Elizabeth Warren argue that companies - given broad rights in court decisions such as Citizens United v. Federal Election Commission - must also accept broad social responsibilities such as paying attractive wages and protecting the environment.

On the other side are many corporate leaders and business school professors (who train future leaders), who continue to believe in the Business Roundtable's position in 1997 that "the principal objective of a business enterprise is to generate economic returns to its owners." Such views echo free-market economist Milton Friedman, who emphasized nearly half a century ago that a business has only one responsibility, to maximize shareholder value.

Exhortations for corporations to do much more will get louder in advance of the 2020 presidential election, and the silent resistance will increase proportionately. I believe there's a middle path. While corporations cannot, and should not, take on responsibilities that are properly those of the government or the local community, they can do better for themselves and for society by explicitly identifying core stakeholders - financial investors, no doubt, but also workers, customers and suppliers who make significant investments in the business - and publicly committing to enhance their collective value.

There's merit still in many of Friedman's concerns. At the time, he was particularly outraged at the growing clamor in the U.S. for corporations to forgo raising prices as part of their supposed "national duty" to help fight inflation. He rightly didn't believe it was the job, or even within the abilities, of companies to control inflation. Moreover, price-fixing would prevent the free market from sending the right signals about shortages.

Friedman also deemed the push for new corporate social responsibilities profoundly undemocratic. Activists who could not get laws passed in Congress were using the bully-pulpit instead to shame corporations into changing behavior.

His critics today complain that decisions by a corporate management focused solely on profits are harsh, give the corporation too short a time horizon, and favor an overly narrow group, the shareholders. The first two don't hold up to scrutiny.

The private corporation's fundamental contribution to society is to make products efficiently and offer consumers affordable choice. In a competitive market, profits show how well it does this.

Share prices reflect the value of profits over time. Since companies looking to maximize the value of their shares will care about profits over the long-term, most will train workers where needed and foster lasting customer relationships instead of ripping off employees or customers.

Put differently, even if CEOs do focus primarily on share prices, that doesn't mean the market only rewards actions that boost this quarter's earnings. Public companies such as Amazon.com Inc. have thrived despite investing in their businesses without showing much in the way of profits. At the extreme end, pharmaceutical companies and aircraft manufacturers take investment bets that won't pay off for decades.

Critics are right, however, in asking why management should maximize only shareholder value. Friedman's theoretical rationale was that shareholders get what is left over after fixed claimants such as debt holders and workers are paid. By maximizing shareholders' "residual claim," management maximizes the overall corporate pie, since the rest are fixed claims on that pie.

In practice, though, many of what are thought of as fixed claims are actually variable over time. Long-term employees, for instance, invest in developing firm-specific skills. This means they are no longer commodity labor, paid a wage determined in a competitive market. Instead, they get a negotiated wage which fluctuates with the company's fortunes.

No less than shareholders then, such workers become residual claimants on the firm's value. Companies that are dependent primarily on them - think of an accounting or consulting firm - often recognize this by making their employees equity partners.

Management should work to enhance the value of these stakes - for instance, by helping long-term workers maintain their skills. Such a commitment will make employees more willing to put out for the firm, and thus also enhances shareholder value.

Corporations will still have to take tough decisions from time to time, including letting workers go when absolutely necessary. But job cuts that boost shareholder value aren't warranted if they reduce the value of other core stakeholders more.

Some critics worry that if boards start focusing on goals other than maximizing shareholder value, it will be hard to monitor and control their performance. Yet U.S. courts have repeatedly decided not to second guess the "business judgment" of boards, thus protecting them from shareholder review except for the most egregious failures. Moreover, a majority of states have passed "constituency" statutes that allow board directors to consider the interests of non-shareholder constituents such as creditors or workers.

Given the considerable leeway corporate boards already have, it would be a step in the right direction for them to specify whose interests, including workers', they are protecting. That would allow investors to better gauge the trade-offs a board will make. It would also give core stakeholders greater confidence to invest in the corporation.

Most important in these populist times, corporate boards can also then avoid unnecessary political flak by identifying their core stakeholders - those who make financial or other long-term real investments in the firm. That would not just circumvent progressive critics, it would also be the right thing to do.

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