AIBEA's Banking News

18 TO 22 JULY 2019

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Staff of public sector banks keen to re-start wage talks

Surabhi Mumbai | July 21, 2019 -BUSINESSLINE

Public sector bank employees and trade unionists (file photo).

Officers' unions likely to stay away

Now that the general elections are over, wage negotiations for workmen of public sector banks could resume, but it is unclear whether the associations representing bank officers will also join the discussions. The proposal to link a part of the salary to performance and exclude senior scales from the negotiations continues to be a bone of contention.

"The officers' unions have not been able to come. We have decided we can't keep waiting. We are expecting the next meeting shortly; we will try to complete the negotiations," said CH Venkatachalam, General Secretary, **All India Bank Employees' Association**.

This would be a break from the recent rounds of bipartite wage talks, when negotiations involving all PSU bank staff (workmen and officers) took place collectively.

The IBA had proposed a 10 per cent hike. But the 11th bipartite wage talks between the Indian Banks' Association and unions of public sector bank employees and officers have been stalled since October last year due to a proposal to link a part of the variable component of the salary to the bank's performance. The wage hike will be put in place retrospectively from November 1, 2017.

Bank unions contend that the bonus component on top of the salary can be linked to the profit, but linking the variable to performance can adversely impact staff wages.

IBA's mandate curtailed

Unions have also pointed out that till now, member-banks had given the IBA the mandate to negotiate salary up to the General Manager cadre. But now, some banks have given the IBA mandate to negotiate only up to scale III, leaving officers in senior management in scales IV, V, VI and VII in 'no-man's land'".

About 14 banks have since then agreed to give a full mandate, but State Bank of India, Punjab National Bank, Union Bank of India, Bank of Baroda and Indian Bank are yet to agree.

"There has been a roadblock, as banks haven't given the mandate… officer service rule applies for all officers from scale I to scale VII," said Soumya Datta, General Secretary, All India Bank Officers' Confederation.

Four officers' organisations, including the AIBOC, the All India Bank Officers' Association, the Indian Natioanl Bank Officers' Congress and the National Organisation of Bank Officers also met IBA Chairman Sunil Mehta on these issues.

Wage settlement talks for workmen (clerical and subordinate staff) are likely to continue but **Venkatachalam also stressed that there has to be a uniform average salary, which cannot be linked to profit.**

The unions are also seeking better retirement and family pension benefits, bank holidays on all four Saturdays, and improved housing and leave benefits. "The overall hike is not as important if the entire package is improved with more retirement benefits and leave," said a person familiar with the development.

Privatisation can wait, give time to see results of banks' consolidation: RBI governor Shaktikanta Das

*From his 18th-floor office, **RBI governor** **Shaktikanta Das** gets an expansive view of the Mumbai harbour and the distant cranes on under-construction high-rises, which he uses as barometers to gauge the health of the economy. The first RBI governor with a Twitter handle, Das believes communication is crucial for an effective central bank. Seven months after he unexpectedly flew in to take charge as the 25th chief of the central bank and douse a crisis triggered by the exit of his predecessor, the 62-year-old sat down with TOI's Sidhartha, Surojit Gupta & Mayur Shetty for his first interview. Excerpts:*

July 22, 2019
THE TIMES OF INDIA

How has the transition been from Delhi to Mumbai?

In the government, I dealt with RBI-related matters and handled the budget, government borrowing and other issues which have an impact on monetary policy. I have also been part of the RBI central board, so, I knew many of the senior people here. Notwithstanding all that was happening and being talked about outside, the transition was quite smooth.

There was talk that you are the first governor in a long time with an arts education. Is that a handicap?

There are two aspects to handling any responsibility – one is your educational background and the other is your on-job experience. Let us also remember that the chief of the US Federal Reserve has a political science background, the IMF chief is a lawyer and the Bank of Japan governor has a civil service background. There are countries where central bank governors come from diverse backgrounds. I have not felt any handicap. I have been here for only seven months, it is for others to judge whether my educational background has been a handicap.

In your meeting with PSU banks on Friday (July 19), you reiterated your concern over the transmission of monetary policy rates...

Banks have their constraints. Having said that, let me stress that the Monetary Policy Committee has reduced the policy rate by 75 basis points (bps) over the last six months. The way markets operate, revision in monetary policy stance from neutral to accommodative itself is seen by some as a 25 bps cut. Effectively, there has been a 100 bps cut in the policy rate. Since the rate cuts began, around 21 basis points has been passed on to new borrowers by end of April 2019 and thereafter the momentum has slowed.

The yield on the 10-year bond was 7.5%, when the rate cut cycle began. It has come down to 6.35% now. The cost of money market borrowing has come down helped by liquidity infusion we have done through open market operations (OMOs) and currency swaps. We have taken several measures to ease availability of liquidity to NBFCs. We have also enhanced the Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR), which will enhance liquidity available with banks for lending to NBFCs. Today, the liquidity surplus in the system in the system is nearly Rs 1 lakh crore. While there may not be a one-to-one transmission or an overnight transmission, it must happen meaningfully. The entire transmission (to existing as well as new loans) will perhaps take place over a year but for new borrowers, the rates should start coming down sooner.

You have spoken about unconventional rate cuts where 25 bps gradation was not sacrosanct. Will we see unconventional rate cuts in future?

All I am trying to convey is that central banks need to have an open and flexible approach and get over the rigidity of the 25 bps rate cut. The second point was that the rate cut itself can take the role of a policy stance. Sometimes, central banks may become prisoners of their stance. Last year, oil prices shot up to $85 per barrel and the rupee was at 75, and nobody could have thought of a rate cut. The stance was that there is a need to tighten. But within three months, the situation changed. Central banks are living in challenging times where things are evolving and moving fast. Take for example, the US-China trade issue. Anything could happen either towards a settlement or further divergence. If the central bank takes a stance and the situation changes soon, it may delay the central bank's response. I must, however, add that central banks need to take a slightly longer-term view of things and at the same time should not be tied to the stance once it is announced.

One of the concerns has been that falling rates are not good for savers, especially senior citizens. How do you address this?

Interest rates fall gradually when inflation is also declining. The real value of money has to be taken into account. One may get 8% interest when inflation was in double digits, but when it is down to 4%, one has to also factor in the inflation aspect.

The twin balance sheet problem of banks with high bad loans and stressed corporates was expected to be addressed with the bankruptcy code. However, the problem seems to persist. How can this be addressed?

The NPA resolution is a process which will happen over some time. Gross NPAs of the banking system, which was 11.2% as of March 2018, is down to 9.3%. There has also been additional capital infusion by the government. This was my opening statement in my meeting with bankers on Friday (July 19), that there is a visible improvement in various parameters. The June 7 circular of RBI has placed the onus on banks to take the lead in the resolution of stressed assets. A lot of importance has been given to banks becoming proactive. One of the points I highlighted during the meeting was that there must be a better internal oversight mechanism; improvement in system-driven identification of NPAs, implementation of the Early Warning Signals. All these instruments have to be strengthened by banks.

Is this also a function of the stress in the economy and related to economic growth?

All stakeholders have a role to play. Companies will have to go for more competitive products. There are certain expectations from the central bank. There is a role for policymakers in the government. Everyone has to play their role. In my interaction with the auto sector, they say there is some reluctance to purchase because of the impending BS-VI norms and the three-year insurance requirement for vehicles (4-wheelers) is also having an impact on sales. Our survey had also shown that these were among the major reasons. The budget has announced several measures to deal with NBFC issues, including partial loss guarantee. This should hopefully contribute to better credit flow to the real economy.

One of the things said after the budget was that now RBI has to play a bigger role in the revival…

There is this conventional phrase that 'the heavy lifting has to be done by the central bank now'. These are standard phrases from any international narrative. Like I said, there is a role for every stakeholder. I must say 3.3% fiscal deficit is a positive sign and the so-called crowding-out effect has been taken into consideration. The Rs 70,000-crore capital infusion in banks is positive. We have to see how they play out.

There was a comment that the deficit would be around 3.55% if PSU borrowing **was factored in…**

As long as the borrowing is by institutions like NTPC, IRFC or NHAI, these borrowings are mostly for capital expenditure.

The budget has announced the first-ever overseas sovereign borrowing. How do you view the move?

I will just repeat what I said earlier. RBI is the debt manager of the government. There is a process of consultation between the government and the RBI with regard to borrowings and the process of consultation has already commenced. Whatever we have to say or whatever inputs we need to give, we have already conveyed to the government and we will continue to interact with the government. Beyond that I would not like to say anything.

In the past, RBI had concerns about overseas borrowing?

We have conveyed our views and given our inputs to the government internally. So, I would not like to give our views through the media.

Cash in circulation has gone to a new high, even in percentage to GDP terms, it is pretty high.

In percentage terms it is still lower than the pre-demonetisation levels. The second thing is, if you project the trend growth, the currency in circulation should have been higher today. Definitely, the rate of growth of currency in circulation has slowed down.

The digitalisation vision document has given some idea of the level of digital transaction. Is there a timeline, and what should the currency in circulation be?

It is difficult to give a target for currency in circulation. If you see, the world over, you cannot have a targeted level of currency in circulation. There cannot be an artificial or pre-fixed target of currency in circulation. But yes, the effort is to move towards a less-cash economy, for which we are focusing on digitalisation. On Friday, in my interaction with PSU banks, we have agreed to begin with, one district per state will be 100% digital, meaning digital facilities should be provided 100% in that district. Once you try and attempt to do that, I am not using the nudge concept, it will have a demonstration effect definitely.

Purely digital models, such as payments banks, don’t seem to be working, with some of them shutting shop.

But then, there are others who are doing well.

Wallets are doing better than payments banks. Is there a need for intervention there?

It’s a new idea which has just started. Payments banks started functioning about two-three years ago, so it’s a new concept, it’s a new model. We have a regulatory framework for that and let the system evolve. Regulation is a continuous process. At the moment, there is no proposal to change the payments banks model, but we will study it and see how they are functioning. There are payments banks which are doing well. Let us also recognise that each company has its own business model. Therefore, some succeed, some do not succeed as well as others.

There seems to be some resistance to digitalisation-related steps. There are apprehensions that banks may not fully pass on the benefits. Do you have a system which is feasible for consumers, banks and the regulatory system?

As far as the banks are concerned, the cost of cash handling is fairly high. Therefore, if there are more digital transactions, obviously the cost of cash handling should come down. So that is a cost-saving formula. It will not happen overnight. It will happen over a period of time.

But that benefit doesn’t seem to be getting passed on to the consumers?

As far as RTGS and NEFT are concerned, we have announced that the benefit ofremoval of charges by RBI should be passed on. That is one leg of the charge, then another leg is the charge levied by the banks themselves on RTGS and NEFT. SBI has already exempted that. Now, it is for every other bank to take their own decision. In any case, the RBI supervision team also monitors that. When the annual supervision exercise takes place, our supervision teams will see whether the benefits of reduction in charges by RBI are passed on or not. We also have this online complaint management system (CMS), which we have introduced to make complaint handling seamless. If there are complaints, we will verify them.

The budget announcement on overseas sovereign borrowing is being seen as a bold move. Do you think the time has come for India to move towards full capital account convertibility?

No, it’s a process and it has to be carefully thought through. It can happen only over a period of time. Now, what is that period of time I cannot specify because it depends on how our economy is evolving, how our economy is growing, how things shape up in the years to come, but it has to be a process.

You have got powers to regulate NBFCs at the same level as banks. How do you plan to go about it and does it make the transition from an NBFC to a bank faster and easier?

You can’t make that assumption. Banking licence is on tap. Anyone can apply for a licence and RBI will examine the proposal based on various regulatory requirements and parameters. RBI has got additional powers (over NBFCs) almost on par with the banks. Because of the way things have developed in the last few years, the NBFC sector has also grown in volume. It needs more effective regulation. The earlier light touch approach will have to be suitably modulated in keeping with today’s requirements and anticipated developments. Transfer of Housing finance regulation to RBI is also a very timely decision because HFCs borrow from banks and NBFCs, so if there is a crisis in that sector, then because of their interconnectedness with banks and NBFCs, the whole financial system gets affected. A single regulator is desirable to take a comprehensive view.

Are the steps announced in the budget enough to provide comfort and confidence for the entire NBFC sector as they are meant for the top ones?

Part of the problem is also sentiment and confidence. Today, some well-functioning NBFCs are also facing issues in getting funds. The budget initiative has a huge signalling effect that should bring in confidence in the sector. NBFCs, where there are governance issues, have to be viewed differently and the sacrifice or haircut on their part has to be higher.

It's been 50 years since the first set of banks was nationalised. Is it time to review the way they work? How will you want them to evolve over the next few years?

How I look at it will get reflected in RBI decisions. It has to be based on interaction with the government, because the government has to decide. There are certain social and broader macro-economic responsibilities that public sector banks are fulfilling. Consolidation is one measure and a process has commenced.

We have to give this model time to play its role. Banks are undergoing a lot of reforms, in terms of imbibing new technology and business models. We have given our suggestions to the government on governance reforms for public sector banks. The questions of privatisation, etc, can be addressed later. Now, we have to focus on the model that has been adopted (of large, consolidated banks).

Many commentators believe that the exchange rate needs to be managed to increase competitiveness in the economy. Do you agree?

RBI does not have a specific target on the value of the rupee. RBI's role in currency management is to manage the volatility in the exchange rate.

You have been an unconventional governor because of the way you have communicated with the market. You are on Twitter. How do you see the role of communication in central banking?

Communication is very important. In a recent speech, I had contrasted taper tantrum communication with that at the time of initiation of unconventional monetary policy in the background of the global financial crisis. When unconventional monetary policy was undertaken, it was backed by very strong communication. But taper tantrum happened because the communication was not so robust. Every word and statement is important. It's very important that you communicate effectively and clearly.

The role of auditors and rating agencies has come into focus in the past few months. How do you see the situation?

In every sector, there are cases of failure and lapses. But it will not be correct to say that all auditors are good or bad. There are areas where rating agencies could have perhaps functioned better. While taking action against the auditors or rating agencies in cases where there have been lapses or collusion, the focus has to be on how to make these sectors and institutions strong. It is for ICAI and the association of auditors and rating agencies to introspect and strengthen their functioning.

There seems to be continuous friction between the government and regulators. How can the government work in a way that it realises it has given up regulatory powers and it has to give space to the regulators?

As I had said the day I took charge, there is need for effective communication and interaction between the government and regulators. There is need for understanding on both sides. If there are issues, they need to be resolved through talks. That is the approach we are following in RBI. I have not encountered any problem.

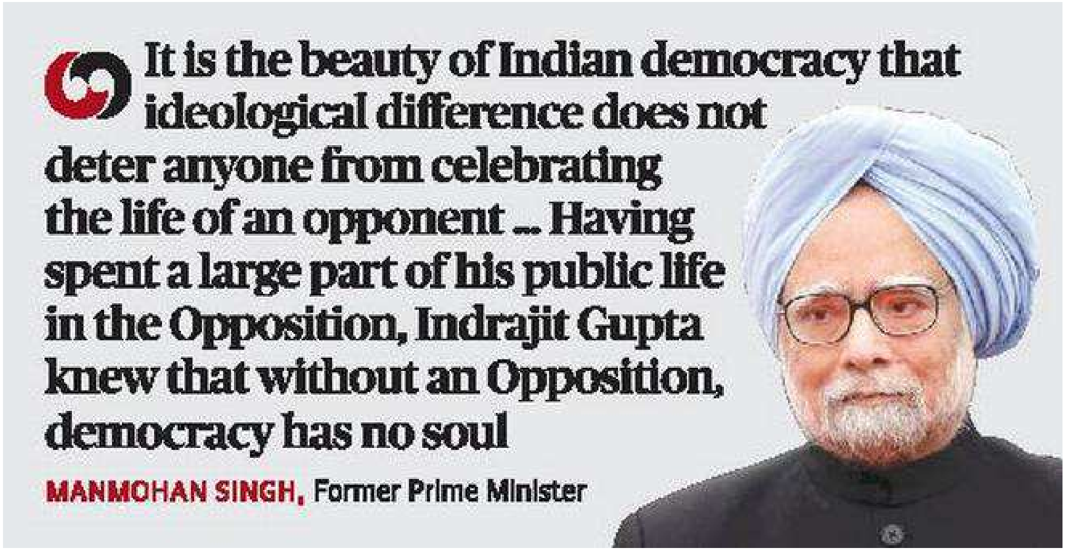
A single party has access to 90% of election funds: Manmohan Singh

SPECIAL CORRESPONDENT
NEW DELHI, JULY 21, 2019

THE HINDU

Need to discuss state funding to provide a level playing field, says former PM

There is a need to discuss State funding for elections at a time when a single party has access to 90% of the election funds, former Prime Minister Manmohan Singh said on Sunday at the birth centenary celebrations of CPI leader Indrajit Gupta.



Referring to the report on electoral funding published by a parliamentary committee chaired by Indrajit Gupta which argued for state funding to provide a level-playing field, Mr. Singh said, “Today when only one party has access to 90% of the election funds, such ideas need to be discussed and deliberated.”

He said it was the beauty of the Indian democracy that idealogical difference didn’t deter anyone from celebrating the life of an opponent. “Having spent a large part of his public life in the Opposition, Indrajitji knew that without an Opposition, democracy has no soul,” Mr. Singh said.

Indrajit Gupta had been a parliamentarian for 37 years from 1960 till his death in 2001. UPA Chairperson Sonia Gandhi, who couldn’t attend the event, sent out a written message which was ready by Mr. Singh.

CPI(M) general secretary Sitaram Yechury recalled interesting details about Indrajit Gupta and described him as a stickler to norms of governance. Mr. Yechury recalled that he had asked Indrajit Gupta during his 18-month stint as Home Minister to declassify papers on the Communist movement in India. “I got a tongue lashing. He said norms of governance can’t be violated under any circumstances,” Mr. Yechury said.

He also flagged the need to have state funding. “The exploitation of poor will only increase by the corporates because after all it’s their money that’s funding one party,” he said.

Government working on revival of BSNL: minister tells Lok Sabha

PTI
NEW DELHI, JULY 17, 2019
THE HINDU

BSNL has informed that austerity measures guidelines have been issued to circles for reducing costs, says Communications Minister Ravi Shankar Prasad

The government is working for the revival of struggling PSU Bharat Sanchar Nigam Ltd. (BSNL) and its result could be seen soon, Union minister of State for telecom Sanjay Dhotre said in the Lok Sabha on Wednesday.

Mr. Dhotre also said BSNL is providing 2G, 3G and 4G (at few locations) mobile services in its Licensed Service Areas (LSAs).

"The government is trying for the revival of BSNL. You can see the results very soon," he said during the Question Hour.

Reports suggest that the total debt on BSNL is around Rs. 15,000 crore and it is struggling to pay regular salary to its employees.

Austerity measures

BSNL has said austerity measures guidelines have been issued to its circles to reduce costs, Parliament was informed on Wednesday.

"Due to fall in revenue, payment of salary of employees and statutory payments are the first priority. Thereafter, bills of contractors, etc., are taken into consideration for payment," Communications Minister Ravi Shankar Prasad said in a written reply to the Lok Sabha.

At this point, no shortage of contractual labour is anticipated, he said.

"BSNL has informed that austerity measures guidelines have been issued to circles for reducing costs," the Minister noted.

Govt. in talks with foreign lenders for loans to SMEs

REUTERS
NEW DELHI, JULY 20, 2019
THE HINDU

Indian banks not in a position to provide enough capital to small businesses, says official

The government is in talks with foreign lenders to provide $14.5 billion in credit to millions of small firms, two officials said.

The government is in discussions with multiple foreign lenders, including Germany's state-owned development bank KfW Group, the World Bank and some Canadian institutions to extend lines of credit to small enterprises, one of the officials, who did not want to be identified, told Reuters.

KfW's India office confirmed the discussions, though the main focus was on credit lines to support small businesses' solar power generation. The talks were at an early stage, KfW said.

The World Bank's India spokesperson did not reply to an email seeking comment. The official said the government plans to source up to Rs.1 lakh crore of loans from foreign institutions because Indian banks were not in a position to provide enough capital for the small business sector, which is seen as critical to job creation. "We are exploring, we are having discussions with various funding agencies if something can be done [for small and medium firms]," the second official said.

The officials did not provide full details of the discussions they are having with banks, or identify all those they are talking to, but said talks are at a very early stage.

India's micro, small and medium enterprise (MSME) Ministry is discussing the proposal — to pull in foreign banks — with the Finance Ministry , which will make a final call, the second official said. The push for foreign loans comes on the heels of the government's announcement earlier this month that it was planning to borrow about Rs.700 billion by issuing overseas sovereign bonds.

India's 63 million firms in the micro, small and medium firm sector are responsible for more than a quarter of the country's manufacturing and services output, and must be re-energised for the government to kick-start the economy. Gross domestic product growth fell to a five-year low of 5.8% in the January-March quarter, well below the 8%-plus rates that the government is targeting.

But credit availability for SMEs, which also account for about 45% of the country's exports, has worsened due to a liquidity crisis in the non-banking financial companies (NBFC) sector.

State-owned banks have not been able to drive increased lending because they are burdened with more than $145 billion in bad loans. Last month, a study by an RBI panel said the overall deficit in credit for the MSME sector is estimated at about Rs.20-25 lakh crore.

Rebooting labour reforms

Editorial | July 21, 2019

THE HINDU BusinessLine

While 'codifying' labour laws, labour interests shouldn't be overlooked

The compression of 44 labour laws into four 'codes' or broad categories — wages, social security, industrial relations and occupational health and safety — forms a central aspect of the Centre's labour reforms push since 2015. This is not a bad idea, as it simplifies access to numerous provisions of the law by all stakeholders concerned. As part of this exercise, the Cabinet recently approved the tabling of the Code on Occupational Safety, Health and Working Conditions Bill in Parliament, which encapsulates 13 laws. The Wage Code Bill, on which the Parliamentary Standing Committee on Labour drew up its comments last December, will be introduced in Parliament soon. While piloting these changes, it is important that the Centre reaches out to a cross-section of stakeholders, some of whom have already expressed misgivings.

The Code on Wages has some positive proposals, such as extending the minimum wage law to all activities, not just the 45 'scheduled' ones. A benchmark national minimum wage will set a floor. However, the definition of worker is not clear. The calculation of the level of minimum wage by an expert committee is at variance with ILO parameters. A lean inspector regime is all very well, but it must monitor workplace safety. The code on industrial relations has evoked strong reactions, as the right to form unions and accord them powers of representation have been severely curtailed. This can be both anti-democratic and economically counterproductive. An approach that regards workers as partners in production is likely to promote industrial harmony. Shutting out legitimate avenues of expression can lead to violent outbursts.

Workforce entitlements should not be disregarded in the urgency to ease the conduct of business. The latest Economic Survey cites studies to observe that a 10 per cent rise in minimum wages leads to a 6.34 per cent increase in employment in rural areas in the case of both men and women, with a statistically insignificant impact in urban areas — questioning the bias against raising wages. In an age when productivity and skills count for a lot, India is unlikely to gain very much from wage arbitrage alone. Its manufacturing is likely to prosper on the back of a skilled and well paid workforce, with a supportive ecosystem in terms of infrastructure and logistics, as Economic Survey 2017-18 suggests. Speaking of the potential of the labour-intensive garments sector, it observes: "Clearly, India still has potential comparative advantage in terms of cheaper and more abundant labour. But these are nullified by other factors that render them less competitive than their peers in competitor countries." Garment wages in not just China, but Vietnam and Indonesia are higher than in India and their yet their exports are growing. An approach to labour regulation that cuts out compliance headaches, while improving the lot of the employees should be the guiding principle — as in the developed world.

What about operational creditors?

Sikha Bansal | July 21, 2019 BusinessLine

The proposed IBC amendments are a step in the right direction. But more clarity is needed on operational creditors' claims

The proposed amendments in the Insolvency and Bankruptcy Code, 2016 (IBC), approved by the Union Cabinet on July 17, and potentially to be moved as an amendment in the current session of Parliament, may overcome a difficulty arising due to operation of the NCLAT ruling in Essar Steel.

The NCLAT ruling, primarily addressing the plight of operational creditors, called for irrelevance of Section 53 (which lays priorities of distribution in liquidation) in the resolution process. Reason being, payment under resolution plan is not a distribution of the proceeds from sale of the assets of the corporate debtor and, therefore, the resolution applicant cannot take advantage of Section 53 for the purpose of distribution to be made in favour of one or other stakeholders — financial, operational or otherwise.

While the NCLAT ruling was, understandably, coming from the viewpoint of justice due to the operational creditors, the implication of the ruling was to render resolution plan highly uncertain, as any scheme of priorities proposed by the resolution applicant could have been subject to challenge before adjudicating authority on the ground of distributive justice.

While undercurrent of the ruling was "equitability"; however the verdict seemed to have called for "equitable treatment of all creditors" as against "equitable treatment of similarly placed creditors" — a well-established principle in insolvency laws.

The objective of equitable treatment is that, "in collective proceedings, creditors with similar legal rights should be treated fairly, receiving a distribution on their claim in accordance with their relative ranking and interests. This key objective recognises that all creditors do not need to be treated identically, but in a manner that reflects the different bargains they have struck with the debtor."

Therefore, even the insolvency laws shall honour respective contractual bargains or deals, which a creditor might have struck with the debtor when the debtor was all healthy. According all these creditors the same treatment would negate the importance of contractual relationships, undermine the autonomy of commercial dealings and will diminish the certainty of the creditor's ability to recover debt, ultimately affecting credit supply and affordability in the long run.

Also, going by widely followed and judicially acknowledged principle of 'vertical comparison', a creditor cannot be put into a worse position in resolution than in liquidation. While there is no bar on endowing more benefits on the creditor; however, if for such benefits, another creditor, who is otherwise more entitled, suffers — there is an imbalance.

Then, it makes little relevance as to the source from where the funds are coming — whether from the assets of the corporate debtor or from the pockets of the resolution applicant. Therefore, Section 53 acts a 'guidance' or as a 'benchmark', while it is open for the resolution applicant to confer beneficial terms on lesser entitled creditors like operational creditors.

The proposed amendments, it seems, imbibe the principles as above, and seek to restore the position understood before the ruling, and make resolution plans abide by the distribution priorities given in Section 53.

The proposed amendments require that the dissenting financial creditors and the operational creditors shall receive such minimum amount under the resolution plan, which shall be higher of — (i) resolution value (say) assignable to the creditors following the priorities under Section 53, and (ii) liquidation value ascribable to the creditors under Section 53. Here, resolution value is the value proposed to be distributed under the resolution plan. The amendment is purported to be retrospective and would be applicable to resolution plans which have not attained finality or have been appealed against.

However, the larger question still remains — will it solve the concerns of operational creditors and render them justice?

Ironically, the proposed amendments will save residual operational creditors only when the resolution value offered by the resolution applicant surpasses the claims of all higher ranking creditors, viz. secured creditors, workmen, employees, unsecured financial creditors, and even government dues. Given the experience so far and that the resolution applicants will pay only for 'value' they assess to be inherited in the entity, this proposition or formula is no more than a nullibiety.

IL&FS case: SEBI expands probe into role of five credit rating agencies

PTI New Delhi | July 21, 2019 BusinessLine

The audit is aimed at identifying siphoning or misuse of funds, fraudulent transactions, their modus operandi, the quantum of the financial loss and fixing of responsibility

Securities and Exchange Board of India (SEBI) expanded its probe into the role of five credit rating agencies after a forensic audit mandated by the new board of crisis-ridden Infrastructure Leasing and Financial Services (IL&FS) flagged serious lapses. They also addressed their possible complicity with the former top brass of the group in giving top ratings despite weak financials.

While CEOs of two rating agencies have een forced to go on leave pending completion of the probe on the advice of SEBI, officials said the regulator is now looking into possible systemic lapses at all five rating agencies. They also said that they are looking into the role of multiple people suspected to have intentionally manipulated the rating procedures.

The special audit conducted by Grant Thornton found that its review of emails exchanged by the former key executives of IL&FS group and the top officials of rating agencies showed that they were aware of the serious liquidity concerns and weakening financials of the group.

"However, various strategies deployed by the then key officials of IL&FS group and certain favours/gifts provided to rating agency officials suggest the possible reasons for consistent good ratings provided to IL&FS group during the period June 2012 to June 2018," an interim report of the special audit said.

The report has also highlighted instances where CRAs had initially decided to downgrade the ratings, but a combination of tactics employed by then key employees of IL&FS and favours/gifts extended to key officials of CRAs resulted in either consistent/good ratings or avoidance of rating downgrade.

The new board of IL&FS had mandated Grant Thornton to carry out a special audit for all high-value transactions undertaken by IL&FS Ltd and some of its group companies for the period between April 2013 and September 2018.

The board was appointed in October 2018 after massive defaults by the group post its debt burden ballooning to over Rs 90,000 crore and suspected wrong-doings by the former top management.

The audit is aimed at identifying siphoning or misuse of funds, fraudulent transactions, their modus operandi, the quantum of the financial loss and fixing of responsibility.

A few details of the probe

Grant Thornton was also asked to review the ratings provided by various credit rating agencies (CRAs) to IL&FS Transportation Networks Ltd (ITNL), IL&FS Financial Services Ltd (IFIN) and IL&FS Ltd.

In its interim report, Grant Thornton said it appears CRAs had consistently provided and maintained good ratings over the years until in July/August 2018 when they downgraded ratings for the first time for ITNL due to a default of repayment of commercial papers.

During the review period, IL&FS Group had availed rating services from Crisil Ltd, CARE Ratings, ICRA, India Ratings (a Fitch group company) and Brickwork.

Officials at the rating agencies denied any lapses on their part and some even said the interim report seems to suggest limited knowledge of the rating process and was based on one-sided information.

A higher rating typically helps a borrower get a lower rate of interest and is aimed at assuring investors about the credit worthiness of the company. Besides, it helps create a wider borrowing landscape for the company and is also often used as a marketing tool in the form of a better image in dealing with customers.

Grant Thornton said it identified multiple e-mails over the period from 2008 to 2018 which indicate that the IL&FS group was under stress or faced liquidity issues since 2015.

The main reasons for the liquidity crunch have been identified as a significant increase in debt in the various group companies, majorly ITNL, high capital requirement for ITNL and its various SPVs, decreasing profit of IL&FS group and support to weaker group companies.

It has also identified instances which suggest that CRAs had multiple concerns for the last 6-7 years on the operations of the IL&FS group, but the ratings assigned by them remained consistently high until they were reversed or downgraded after June-July 2018.

Listing potential strategies undertaken by the former top brass of IL&FS to get good ratings or avoid a downgrade, the report said the rationale which is supposed to be drafted by the rating agencies were materially modified on suggestions from the then key employees of the group.

In cases where IL&FS became aware that ratings were not going to be favourable, they either delayed the process of rating surveillance or avoided the rating being made public.

In certain instances, intentionally incorrect or incomplete information was being provided to the CRAs to avoid rating downgrade. In cases of desired ratings not being received, the IL&FS management used to exert pressure on rating agencies to either withdraw the ratings or approach other rating agencies who would provide the desired ratings.

The audit also cited several e-mails suggesting that the CRAs, after meeting with the then key employees of IL&FS, would not downgrade their ratings as initially decided.

The special audit has also flagged a potential conflict of interest between IL&FS and CARE, as for the period 2007 to 2013, IL&FS Ltd and IFIN owned equity shares of approximately 5-9 per cent in the rating agency.

During the same period, CARE had also provided ratings to instruments of IFIN, ITNL and IL&FS Ltd, indicating a potential conflict of interest as CARE was rating its equity shareholder.

Private insurance companies receive Rs 46 crore premium in two years from railways, railways passengers : RTI

PTI New Delhi | July 21, 2019

THE HINDU BusinessLine

Rs 7 crore was paid in claims to railway passengers, says an RTI reply

Private insurance companies received a premium of around Rs 46 crore in the last two years from the railways and its passengers while making a payout of only Rs 7 crore in claims under the national transporter's travel insurance scheme, according to the reply received on a Right To Information (RTI) query.

IRCTC, which is a wholly owned undertaking of the Ministry of Railways, has entered into an agreement with three private insurance companies through limited tender - Shriram General Insurance Company Ltd, ICICI Lombard General Insurance Company Ltd and Royal Sundaram General Insurance Company Ltd for its Optional Travel Insurance Scheme which was launched in September 2016 with a premium of Rs 0.92 per passenger.

This facility is meant for confirmed/RAC railway passengers who booked e-ticket through the official website of Indian Railway Catering & Tourism Corporation (IRCTC).

Under the scheme, a sum assured is paid to the victim/family or legal heir of the victim as the case may be in case of death/injury of reserved passengers due to train accident/untoward incidents.

While the national transporter bore the insurance premium till August 31, 2018, the cost was transferred to passengers since and the premium was revised to Rs 0.49 per passenger in October 2018.

According to the RTI reply received by Madhya Pradesh-based social activist, Chandra Shekhar Gaur, while IRCTC has paid Rs 38.89 crore to insurance companies, passengers have so far paid Rs 7.29 crore in the past two years.

The travel insurance provides a coverage of Rs 10 lakh for death and permanent total disability arising out of any train accident or other untoward incident. For permanent partial disability you get Rs 7.5 lakh. The Rs 2 lakh coverage for hospitalization expenses for injury is over and above the death or disability coverage.

Acts like accident, robbery, dacoity and other violent acts during the train journey are covered by the policy.

Insurance companies received 206 claims in the two years, while 72 were rejected.

Officials, when contacted, said claims were less in the last two years as the number of rail accidents had dipped significantly. Railway accidents have decreased from 118 in 2013-14 to 104 in 2016-17, to 73 in 2017-18 and further to 59 in 2018-19.

The railways are also carrying more passengers - there is an increase of 2.09 per cent in the number of passengers carried by the Indian Railways during 2017-18 as compared to 2016-17 and 0.64 per cent increase in 2018-19 as compared to 2017-18.

MSMEs: CIBIL sees 'stable' NPA situation in last 6-8 quarters

New Delhi | July 19, 2019 BusinessLine

Banks, NBFCs can consider more lending to this segment

KR Srivats Credit information company TransUnion CIBIL sees the non-performing assets (NPA) situation on MSME loans as "stable" and "not rising" over the past six to eight quarters.

This (MSMEs) can be looked at as a segment where banks and NBFCs can now go in for more lending, Harshala Chandorkar, Chief Operating Officer, TransUnion CIBIL, told *BusinessLine* here.

"We are seeing credit growth to MSMEs. While NPAs to this segment are not low, they are definitely not rising. They are stable," Chandorkar said.

MSME lending has grown in the past five years. And given the structural strength of this segment, combined with the tailwinds of growing large corporate sector with declining NPA rates, one may see MSME lending gain further intensity, according to CIBIL.

Though the share of public sector banks (PSBs) in MSME lending has been shrinking, digitisation and getting out of prompt corrective action (PCA) framework are likely to boost their activities in the MSME segment.

As for MSME lending to the commercial entities segment, the share of PSBs has declined from over two-thirds of the market in December 2013 to less than half of the market in December 2018. The biggest beneficiaries of this trend have been the private banks and NBFC players.

Both the private and NBFC segments have gained market share by around 4 percentage points each over the past five years on account of a decline in the share of the PSBs and the 'Others' segment.