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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Bank Unions forum to stage dharna before Parliament on Sept 20

Our Bureau Thiruvananthapuram | September 12, 2019

BusinessLine

The agitation is to oppose the government's recent move on proposed public sector banks merger

The United Forum of Bank Unions (UBFU) has decided to launch a sustained programme of agitation against the proposed move of merger of public sector banks. "In order to show strong disapproval of the move, we would stage a mass dharna before Parliament at 10.30 am on September 20 (Friday)," said Sanjeev K Bandlish, Convenor, UFBU.

To meet the FM

A delegation of the UFBU would later meet Finance Minister Nirmala Sitharaman to hand over a memorandum seeking a review of the merger proposal. The United Forum will reconvene the same evening to take stock of the developments and chalk out further programmes, Bandlish added.

The UFBU feels that the proposed merger is totally unwarranted and no positive benefit would accrue to the parties involved. If anything, it would only bring harm to the banking sector as a whole, it added. The UFBU had called for nation-wide mass protests on August 31 with members wearing black badges in office.

Meanwhile, in connection with its meetings on Indian Banks' Association (IBA) on wage revision and related issues, the UFBU has clarified its stance on the proposed performance-linked incentive scheme. Earlier, the IBA had refused to raise the wage increase offer from 10 per cent but agreed to review the performance-linked pay scheme for about 8.5 lakh public sector bank employees.

The bankers body had, in a meeting with bank unions held last month, proposed to form a sub-committee to deliberate on the contentious issue.

Performance-linked scheme

The UFBU is of the view that the introduction of the performance-linked incentive scheme should be exclusively over and above the mutually agreed quantum in wage revision. The UBFU would also review the scheme as proposed by the IBA but the larger discussions on the issue can be part of the regular bipartite discussions.

"In view of the above, we would request you to take our view points and accordingly discuss the issue further in the ensuing meetings of the IBA," Bandlish said.

The entire wage revisions needs to be expedited as employees and officers are anxiously looking forward to settlement of the same. The 11th bipartite settlement is due from November 1, 2017. The issue of the 'mandate' should be settled amicably, and the IBA should also substantially improve its offer so that the wage revision settlement can be concluded at the earliest.

It may be recalled that the IBA had earlier proposed a 'split mandate' for officers up to scale V suggesting bank-wise increment for officers in Scale VI and VII.

Rich Indians seek the safety of foreign shores

Lalatendu Mishra

MUMBAI, SEPTEMBER 10, 2019
THE HINDU

High net worth individuals make a beeline for Greece, Portugal, Thailand, Canada and Hong Kong

The number of Indian high net worth individuals (HNIs, with wealth of $1 million) and ultra high net worth individuals (UHNIs, with wealth of $50 million onwards), acquiring citizenship in foreign countries is growing year on year, according to people familiar with the trend.

Indians mainly applied for residence to Greece, Portugal and Thailand (2019), and Canada, Portugal and Hong Kong (2018), while for citizenship, they mainly applied to Malta, Cyprus, Antigua and Barbuda, and Grenada (2018 and 2019).

"In terms of wealth migration trends, it's anticipated that overall demand for a second passport among wealthy individuals will continue to increase in 2019," said Dominic Volek, managing partner and head of Southeast Asia, Henley & Partners, an investment migration firm that specialises in helping wealthy individuals obtain second residence or citizenship.

"China, India, Turkey and the U.K. saw the biggest outflows of wealthy individuals in 2017. Safety, financial stability, high taxes and religious or political tensions are a few of the factors driving these wealthy citizens abroad," he said.

While the U.S., the U.K. and Canada have long been a favourite with rich Indians, countries like Portugal, Cyprus, Greece, Malta and other European Golden Visas are seen gaining a great deal of traction and interest in the past few years.

"For citizenship investment programmes [CIPs], like the Caribbean CIPs of Saint Lucia, Dominica, Saint Kitts and Nevis, Grenada, and Antigua and

Barbuda, there's a certain limit on demand — just like there is for the Chinese — because of the Indian government's law on not allowing dual citizenship," Mr. Volek said.

As per Henley & Partners data, there was a 33% increase till date in Indian nationals applying for residence programmes for 2019, when compared to the whole of 2018. "Indian nationals applying for our programmes did so from all over the world [not just from India]. These Indian nationals mainly lived in Singapore, the United Kingdom, Switzerland and the United Arab Emirates," Mr. Volek said.

According to the Credit Suisse Global Wealth Report, India has about 3,43,000 HNIs and 3,400 UHNIs. The number of U.S. dollar millionaires in India grew nearly nine times to 343,000 from 39,000 in 2000. Total wealth in India increased five-fold between 2000 and 2018, reaching $6 trillion in 2018.

India is viewed as one of the top 10 fastest growing high net worth countries, alongside Bangladesh, Vietnam, China and the Philippines.

He said most HNIS from India are investing in properties in London, Singapore, Kuala Lumpur, New York and Dubai. A larger number is also seen investing in the U.S. through the EB-5 visa programme to acquire green cards. Quoting U.S. Citizenship and Immigration Services data for fiscal 2016, Mr. Volek said India accounted for $177 million in foreign direct investment, behind only China and Vietnam.

Travel freedom

According to the Henley Passport Index, the strength of the passport plays a big role in Indians seeking alternative citizenship. In the recent Henley Passport Index, an annual ranking, the Indian passport ranked 86th, with visa-free/visa-on-arrival access to only 58 countries out of 227 possible travel destinations. He said, "This puts the Indian passport behind other Asian countries like Singapore, Korea, Malaysia, Brunei and Thailand."

He said UHNIs and HNIs want travel freedom and this is the main reason why such people opt for passports that provide visa-free access to most countries.

'Tackling liquidity, key to reviving economy'

Sanjay Vijayakumar
CHENNAI, SEPTEMBER 12, 2019
THE HINDU

Excess liquidity exists in the system, but banks are not lending, says Hiranandani Group CMD

Chairman and managing director of the Hiranandani Group Niranjan Hiranandani said if liquidity issues in the market are not addressed, all other efforts taken to revive the economy would fail.

"I expected the slowdown situation to improve by June. But it has prolonged mainly due to liquidity issues," he said in an interaction on Thursday.

Mr. Hiranandani also said that the current slowdown was driven by local factors as against the meltdown caused by the global financial crisis in 2008.

"The financial crisis was a global phenomenon imported into India. However, we were able to come out of it much faster. The situation was almost overcome by the end of 2009," he said. Mr. Hiranandani, who is also the senior vice-president of industry body Assocham, said that the current slowdown started with the demonetisation process in 2016. "It was followed by reforms such as GST, IBC, RERA, Benami law. Though, individually these measures were very good, it created a tsunami-like effect together, which was a negative factor," he said.

Mr. Hiranandani pointed out that banks had stopped lending to industry, real estate, MSME and for car purchases and had been, instead, lending to NBFCs, which in turn, were giving loans to end customers.

“Post the IL&FS crisis, the system has broken down. Now, there is excess liquidity in the system, but banks are not lending,” he claimed.

Mr. Hiranandani said banks were currently not lending to NBFCs as their ratings had gone down, which was understandable.

“They [banks] are not lending in the market because they are not comfortable with the economy and don’t know what to do. With the enforcement agencies going after bank officials, they don’t want to take lending decisions,” he said.

Mr. Hiranandani suggested that the transfer of Rs.1.76 lakh crore surplus by the RBI to the government should hit the market in the next couple of weeks through investment in infrastructure and other projects. He added that this would would kick-start the economy.

The RBI’s mandate asking banks to link their lending rates on floating rate loans to retail, personal and micro, small and medium enterprises (MSME) borrowers to an external benchmark from October 1, was an excellent move, he noted.

“This will lead to automatic transfer of benefits of lower interest rates to customers,” Mr. Hiranandani said.

He also pointed out that giving thrust to housing and infrastructure, textile, tourism and MSME sectors would help solve the unemployment crisis and drive growth.

Finance Minister assures industry of ‘all possible steps’

SPECIAL CORRESPONDENT
CHENNAI, SEPTEMBER 11, 2019
THE HINDU

Sitharaman seeks inputs from corporates on ground reality

Union Finance Minister Nirmala Sitharaman assured the industry of possible measures to address sector-wise challenges, as well as a major push to infrastructure, in an informal meeting with industry captains from Tamil Nadu on Wednesday.

The objective of the meeting was to get a sense of ground reality, amid the current economic slowdown, across various industrial sectors of the economy.

K.M. Mammen, executive director-chairperson, MRF, N. Srinivasan, vice-chairman and MD, India Cements, T.T. Srinivasaraghavan, managing director, Sundaram Finance, Srivats Ram of Wheels India, Gopal Mahadevan of Ashok Leyland, R.G. Chandramogan of Hatson Agro, Arun Jain of Intellect Design Arena, Sunitha Reddy of Apollo Hospitals, P. Venketrama Raja of Ramco Group, Sanjay Jayavarthanavelu of LMW, T. Kannan of Thiagarajar Mills and Indian Bank MD Padmaja Chunduru, among others, attended the meet.

According to sources, Mr. Srinivasan said cement was the barometer of economy like the housing stocks in the U.S.

“After a long downturn, cement industry clocked strong double digit growth in FY19 with higher capacity utilisation. If the big ticket infra investments of Rs.100 lakh crore over five years are implemented along with the housing schemes, the demand will improve,” he told the Minister in the meeting.

‘Thrust on exports’

“The textile industry now has huge excess capacity in the country. A major thrust needs to be given to exports, especially taking advantage of the trade war between the U.S. and China. On behalf of the industry, I requested the the Merchandise Export from India Scheme to be continued until March,” T. Kannan, chairman, Thiagarajar Mills, said.

He has also suggested that Chinese investments should be attracted in the textile sector, which would help reduce the trade imbalance.

“She [the Minister] was not in denial mode that there are challenges but also said that not all was doom and gloom. There are many sectors that are doing well,” said an official, who was part of the meeting.

The automotive industry reiterated its demand for GST rate cuts to revive demand.

"The fact that she has had a face-to-face interaction with industrialists from a wide range of sectors and is open to listening to the industry view is a positive development and augurs well for the future," he added.

The Minister also assured attendees that the views and suggestions from the industry leaders would be used as inputs by the task force that was looking into the issues.

"She wanted to listen to views across the sectors and gave enough time to address our views. However, she did not commit any specific measures," said another official who attended the meeting.

RBI enables banks to lend more to customers

Our Bureau - Mumbai | September 12, 2019

THE HINDU BusinessLine

Banks will be able to lend more to customers for buying consumer products such as mobile phones, home appliances, two-wheelers, and three-wheelers, with the RBI cutting the risk weight for consumer credit, including personal loans.

While credit card receivables have been excluded, what this cut means is that banks can offer consumer loans by setting aside relatively lesser capital. The RBI has cut the risk weight to 100 per cent from 125 per cent. This reduction in risk weight comes at a time when the consumers' perception of the economic situation and the employment scenario has softened, according to the RBI's Consumer Confidence Survey in July. In its Statement on Developmental and Regulatory Policies, issued on August 7, the RBI had said that guidelines on reduction in risk weight for consumer credit, except credit card receivables, would be issued by August-end. So far, consumer credit, including personal loans and credit card receivables, but excluding educational loans, attracted higher risk weight of 125 per cent or higher, if warranted by the external rating of the counterparty.

Social security outreach

Anand Kalyanaraman | September 13, 2019

THE HINDU BusinessLine

The proposed EPF amendment will benefit many more workers

The proposed amendments to the Employees' Provident Fund Act may pave the way to extend provident fund benefits to many workers who have so far been outside the net. Among the changes proposed, a significant one is to allow rates of contribution by certain classes of employees to be lower than the mandatory 12 per cent.

Reports say that the government may also consider exempting certain classes of employers from the mandatory joint contribution to the EPF.

Seen together, this could allow the EPF benefits to be extended to a wider section of workers such as domestic help, drivers and the self-employed. While the rates of contribution to the EPF and other modalities are awaited, the steps towards providing much-needed social security to these vulnerable sections of society is welcome.

Along with the Pradhan Mantri Shram Yogi Maandhan scheme that aims to provide pension to workers in the unorganised and informal sectors, the proposed extension of provident fund benefits to a wider swathe of workers will be a good start, even if small, to address the retirement time-bomb problem that is ticking away in the country.

At the same time, the government must also consider restricting the benefits of the EPF to those who deserve them. As it stands, even employees who earn very hefty salaries are allowed to contribute 12 per cent of their basic and dearness allowance, without any monetary limit, to the EPF, with an equal contribution from their employers.

On this sum, they enjoy the benefits of attractive interest rates, fully tax-free. Not just that, employees can contribute extra to the EPF through the voluntary provident fund. On this too, they enjoy high tax-free returns.

There is little reason why the rich should be given such largesse. Budget 2016-17 had proposed a monetary limit for contribution of employers in recognised provident and superannuation funds of Rs.1.5 lakh per annum for tax benefit.

But this proposal, along with other changes to the EPF, was rolled back that year due to protests. It's time for a re-think.

Fraudsters threaten to bleed Ayushman Bharat scheme

Maitri Porecha New Delhi | September 13, 2019

THE HINDU BusinessLine

National Anti-Fraud Unit finds ineligible people claiming medical cover by faking relationship with parent-beneficiary

Fraudsters are coming up with ingenious ideas to take the Central government for a ride when it comes to the 'Pradhan Mantri Jan Arogya Yojana' (PM-JAY) or the Ayushman Bharat initiative, says the National Anti-Fraud Unit (NAFU), which monitors outliers in the scheme.

In one such bizarre case, NAFU officials noticed that claims had been raised under the PM-JAY for as many as eight deliveries by women in one house at the same time. "This is impossible. How can eight women be pregnant at the same time, that too in the same home?," a senior NAFU official exclaimed.

Investigations revealed that up to eight ineligible pregnant women, unrelated to each other, had gotten themselves enrolled in PM-JAY through fake e-cards. These cards were made by faking relationship with a PM-JAY parent-beneficiary. PM-JAY uses Socio-Economic Caste Census Data (SECC) to ascertain beneficiary families and primarily records the name of the head of the family. Other family members get e-cards based on proving their relationship with the head of the family.

"In some cases, we found that village entrepreneurs in common service centres (CSCs), who get e-cards made, had stolen parent beneficiary identities from SECC data, and through impersonation, established a familial link between otherwise ineligible strangers and the parent beneficiary; they later made fake e-cards for them," the official explained.

The fraudsters establish fake family links by showing a forged marriage certificate, and get registered as a daughter-in-law of a beneficiary family. "In that case, you can retain your original name and identity cards, but just have to produce a fake marriage certificate to procure an e-card," said the official. Other admissible documents to add names of family members at a later stage include a ration card, a birth certificate or an adoption certificate linking the member to the SECC parent beneficiary. "Any of these documents can be forged," said the official.

In another case, in Jammu and Kashmir, multiple patients linked to one beneficiary in the same house had undergone a surgery for bladder stones.

Hospitals in cahoots

Each family (typically with four or five members) is assured a medical cover of Rs.5 lakh annually. "The entire amount is never utilised within a year by the family. This hefty amount in an SECC registered beneficiary's family wallet leaves a massive space for fraud. First Information Reports have been lodged with the police against CSCs in Uttar Pradesh and Haryana in this regard. We have also moved to recover money in cases where hospitals and 'Arogya Mitras' were in cahoots. In certain cases, wallets of SECC beneficiaries have been mysteriously exhausted, but a plan for reimbursement has not been chalked out yet," said the official.

Such occurrences have led the National Health Authority (NHA) to step up its due diligence. "Whenever a patient gets admitted through linkage to the parent-beneficiary, we call the parent-beneficiary from our database to ask if the patient is related to him/her. Every time a patient is admitted, and through each step of insurance procedure, a text message is sent to the parent beneficiary," said the official.

However, there is no mechanism in place currently to detect all frauds. "Our staff manually monitor the outliers that reflect on the system. So, we are not able to capture all frauds that may be occurring. We are working on developing systems through artificial intelligence and algorithms, which will automatically red-flag the outliers," said the official.

Also, NHA has shut down 154 fake websites and up to 590 fake mobile phone applications that claim to enrol persons in PM-JAY by charging money.

Digital transaction volumes soar; BHIM gains currency

Radheshyam Jadhav Pune | September 13, 2019

THE HINDU BusinessLine

There has been an increase in digital payments across the country since 2016. The number of digital transactions in 2016-17 was 1,013 crore, which increased to 3,134 crore in 2018-19.

This year, till September 11, 1,527 crore digital transactions have taken place.

On a steady growth path

Financial Year (FY)	Total digital transactions (in crore)	Year-on-year growth of digital transactions in %
FY 2016-17	1,013.00	---
FY 2017-18	2,070.39	104.38
FY 2018-19	3,133.58	51.35
FY 2019-20 (till Sept 11, 2019)	1,527.00	—

Interestingly, the popularity of Bharat Interface for Money (BHIM) payment app is multiplying, when compared to other digital payment modes. Only 4.41 per cent of the total digital transactions were made through this app in 2017-18, while in 2018-19, it rose to 17.8 per cent. Pioneered and developed by the National Payments Corporation of India (NPCI), BHIM was launched by Prime Minister Narendra Modi in December 2016, with the aim of bringing in "financial inclusion to the nation and a digitally empowered society".

The data presented by the Ministry of Electronics and Information Technology to the Rajya Sabha in July and the data on the Digidhan Dashboard of the ministry reveal that the popularity of digital payment is slowly but steadily gaining roots. The Finance Minister, in his Budget speech of 2017-18, had announced a target of 2,500 crore digital transaction for 2017-18. The target achieved was 2,070.39 crore.

The ministry informed the Rajya Sabha that the 'Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA) scheme would cover six crore rural households (one person per household) by March 2020 to spread digital literacy.

RBI cuts risk weight for consumer credit

Our Bureau Mumbai | September 12, 2019

THE HINDU BusinessLine

Banks will be able to lend more to customers for buying consumer products such as mobile phones, home appliances, two-wheelers and three-wheelers, with the Reserve Bank of India cutting the risk weight for consumer credit, including personal loans.

While credit card receivables have been excluded, what this cut means is that banks can offer consumer loans by setting aside relatively lesser capital. The RBI on Thursday cut the risk weight to 100 per cent from 125 per cent.

This reduction in risk weight comes at a time when the consumers' perception of the general economic situation and the employment scenario has softened, according to the RBI's Consumer Confidence Survey in July.

Government's complacency is the most dangerous thing: Manmohan

Our Bureau New Delhi | September 12, 2019

The Hindu BusinessLine

The country is in the midst of a dangerously protracted slowdown, warned former Prime Minister Manmohan Singh on Thursday. Addressing a meeting of Congress general secretaries and other top leaders here, he alleged that it is all the more dangerous that the Centre is complacent enough not to realise that the country is in the midst of a slowdown.

"The country today is in the midst of a dangerously protracted slowdown. This is not a statement made by the Congress alone. Everywhere, if you talk to industrialists and journalists, the common theme is the economy is going from bad to worse," he said. "The dangerous thing about the present economic situation is that the Centre is complacent enough not to realise that we are in the midst of a protracted economic slowdown."

He said be it agriculture, real estate or manufacturing, every sector is witnessing a downturn. "If this situation is not reversed, then the worst thing could happen to the employment situation. If income growth slows down month after month, quarter after quarter, then the scope of creating more jobs will seriously be affected," he added.

Singh reminded the Centre that agriculture is the cornerstone of economic activity. "Sixty per cent of the people work in agriculture and allied activities. Per the latest figures, the growth rate of agriculture is 2.7 per cent, against the previous year's over 3.5 per cent," he said. "The real wage rate in the agriculture sector and the rural sector has been static in the last five years of the BJP government."

Weak rupee

On the real estate sector, he said 4.5 lakh dwelling units are lying vacant across eight metros. "There is no demand for those units. If real estate is affected, construction is affected and employment will also be affected," he said. "The rupee is getting weaker. But instead of taking advantage of pushing up exports, the exports are sluggish and the the balance of payment is getting worse." worse," he added.

RBI increases banks' loan exposure limit to single NBFC

PTI | September 13, 2019

THE FINANCIAL EXPRESS

According to the extant 'Large Exposures Framework (LEF)', banks' exposure to a single non-banking financial company (NBFC) is restricted to 15 per cent of their available eligible capital base, while general single counter-party exposure limit is 20 per cent, which can be extended to 25 per cent by banks' boards under exceptional circumstances.

"It has been decided that a bank's exposure to a single NBFC (excluding gold loan companies) will be restricted to 20 per cent of that bank's eligible capital base," the central bank said in a circular

The RBI on Thursday increased loan exposure limit of banks to a single NBFC (excluding gold loan companies) from 15 per cent to 20 per cent of its capital base, a move that will help increase credit supply to the crisis-ridden shadow banking sector.

According to the extant 'Large Exposures Framework (LEF)', banks' exposure to a single non-banking financial company (NBFC) is restricted to 15 per cent of their available eligible capital base, while general single counter-party exposure limit is 20 per cent, which can be extended to 25 per cent by banks' boards under exceptional circumstances.

"It has been decided that a bank's exposure to a single NBFC (excluding gold loan companies) will be restricted to 20 per cent of that bank's

eligible capital base," the central bank said in a circular. The government on its part has also been taking steps to increase liquidity in the NBFC sector, which was hit after default by IL&FS Group. The liquidity crunch in the NBFC sector has hit the retail loan segment in the country leading to slowdown in key consumer sector lending.

All banks on equal footing in amalgamation plan: Sunil Mehta, MD & CEO, PNB

FE Bureau | September 13, 2019

THE FINANCIAL EXPRESS

The government, under the decisions taken under the alternative mechanism, has announced in-principle approval for the merger process of 10 banks in which PNB is one of the anchor banks.

Punjab National Bank (PNB) and the two banks it is going to acquire have formed 23 working groups to resolve issues around products, processes and human resources, PNB MD and CEO Sunil Mehta said on the sidelines of the Indian Banks' Association's (IBA) 72nd annual general meeting. The amalgamation will allow the creation of robust new verticals, such as marketing, within public-sector banks, he added. Edited excerpts:

What is the progress made in the merger of PNB with the two other banks?

The government, under the decisions taken under the alternative mechanism, has announced in-principle approval for the merger process of 10 banks in which PNB is one of the anchor banks. These issues are being deliberated by the respective boards of the three banks. In my bank, we have already taken in-principle approval and are working out a detailed amalgamation plan. This is an amalgamation plan and not a merger plan and in this plan all the three banks are on equal footing.

What kind of synergies are you hoping to benefit from?

Even employees are going to gain out of it because the best of the facilities available in each of these banks will be made available to all in the amalgamated entity. Another advantage is that there will not be any retrenchment of staff and there will be a lot of synergies between them. For instance, OBC has got good systems and processes and have got overlapping presence with PNB so we can optimise our resources. So, these synergies will definitely benefit the amalgamated entity.

What timeline are you looking at to complete the process?

The timelines will be finalised by the board members when the detailed merger plan is worked out. This is not only a legal merger but has to be in terms of technology, product and services and we have already created 23 working groups, including products, processes and human resources. These have participants from three banks and each will work on various products of the three banks to merge the best features of these products and make a common one. So, the day this amalgamated entity comes into force, the unified product is available to all stakeholders.

How are you placed in terms of capital?

You must appreciate that we have got the largest chunk of capital support of Rs 16,000 crore for PNB and Rs 1,600 crore for United Bank of India. For the amalgamated entity it works out to be Rs 17,600 crore and with that we will meet out the regulatory and growth requirement of the amalgamated entity. Our plans to sell our non-core assets are on track.

How will you manage the HR transition? Will there be a VRS offer?

For HR, we have already made two things clear and FM has already announced that there is not going to be any retrenchment and every employee is going to gain because the best of the benefits will be available to them. Suppose, United Bank is giving better benefits to their employees, then the same will be available to all in the amalgamated entity.

Demonetisation, GST key reasons for slowdown, says Manmohan Singh; tells how Modi govt can revive growth

FE Online | September 12, 2019

THE FINANCIAL EXPRESS

Demonetisation and hastily implemented GST (goods and services tax) are the key reasons behind the ongoing slowdown, former Prime Minister Manmohan Singh said

The ongoing economic weakness is expected to be a result of lack of liquidity in the system, Manmohan Singh said

Demonetisation and hastily implemented GST (goods and services tax) are the key reasons behind the ongoing slowdown, former Prime Minister Manmohan Singh said. The GST was introduced at a time when the economy was already recovering from the negative effects of the demonetisation and this hit the economy, the eminent economist said, adding it would take some years for the sluggish economy to revive. The ongoing economic weakness is expected to be a result of lack of liquidity in the system, Manmohan Singh told Hindi daily Dainik Bhaskar in an interview. Adding, former finance minister said that the government needs to address both structural and cyclical problems so that the economy gets back to a high rate of growth in 3 to 4 years.

Suggesting ways to improve the situation, former prime minister said that the Modi government needs to rationalise the GST even if it results in a revenue loss in the near term. Boosting consumption in the rural sector and reviving the agriculture should be high on the agenda of the government, he added. There is a need to introduce measures to increase liquidity in the system, he noted. The key job generating sectors including automobile, textile and electronics should be boosted and easy loans should be handed over for the purpose especially to the small businesses.

On bank merger, he said that even as it may strengthen the banking sector but questions can be raised on the timing of the move. Meanwhile, different industry bodies have come up with a demand for stimulus from the government so as to boost low demand. Finance Minister Nirmala Sitharaman has even announced a slew of measures over the past few weeks with an aim to improve the investor sentiment and push economic growth.

Big banks shouldn't go subprime amid slipping credit growth

Bloomberg | September 12, 2019
THE FINANCIAL EXPRESS

The near-recession in the consumer economy means unsecured lending could be the next domino to fall

About 20% of all active credit-card customers in India are in the highest category of creditworthiness, according to TransUnion Cibil

Any financing that's secured by collateral — steel mills, textile factories, power plants, roads or land — is in trouble in India. A multiyear investment slowdown has decimated credit quality. Now, the problem is spreading. The near-recession in the consumer economy means unsecured lending could be the next domino to fall.

With business collateral losing its sheen, India's top three private-sector banks have been expanding their credit card and personal loan business at 30%-plus rates, double the pace of growth in their corporate loan book. They can't keep up for long. If they try, they would only be storing trouble for the future.

Why? For one thing, the quality of the next borrower is suspect. About 20% of all active credit-card customers in India are in the highest category of creditworthiness, according to TransUnion Cibil, which assigns scores. But among those who signed up last year, only 3% belonged to this least risky group, an analysis by Sanford C. Bernstein & Co. shows. The next person to apply for and get a credit card in India is more likely to be subprime.

A surge in lower-quality customers would raise credit costs. It will be a double whammy when banks have to provide for bad loans after paying for costlier term deposits. And that's linked to the consumption slowdown, because of what Bernstein analyst Gautam Chhugani calls the sheer "exhaustion of household savings in the large metropolitan cities."

This is a true showstopper. Unlike their state-run cousins, HDFC Bank Ltd., ICICI Bank Ltd. and Axis Bank Ltd. are more city-centered lenders. Right up to March 2016, the trio enjoyed steady annual savings deposit growth in the range of 17%-18%. Then, in November that year, came the draconian Indian currency note ban. Their deposits swelled as people returned the 86% of the currency that was no longer legal tender**.**

But the top three banks' savings deposit growth has since slipped to 10%, while for all lenders the figure has plunged to as low as 6% in metropolitan areas. Urban Indian consumers have reached into their nest eggs to battle sudden job losses, poor pay increases and a $15 billion wealth shock from apartments that they've paid for but were never built because developers ran out of money.

Having lowered their savings rate to 22% of disposable income last year from 29% in 2012, consumers are shopped out, as evidenced by the 41% fall in August car sales, the biggest drop on record. Not only is the slump bad news for vehicle finance, but the depressed consumer sentiment is a Catch-22 for unsecured lending.

As Bernstein analysts explain, 35% of HDFC Bank's earnings growth comes from credit cards and personal loans. If the bank goes down to smaller cities and towns in search of the next borrower, it will be competing for the typical micro-finance customer. And this type of subprime borrower could already be in significant debt. Bandhan Bank

Ltd., a small-loans specialist, has of late been making advances with an average ticket size of 64,000 rupees, ($890) compared with under 40,000 rupees on its outstanding micro loans.

Not wanting to go down this path will present the other challenge — of not being able to earn a decent margin on costlier term deposits. Either way, the prognosis for bank shareholders isn't bright. A bigger worry is the macroeconomic impact of big private-sector banks stepping off the gas. Stricter standards could worsen India's consumption slowdown by making unsecured credit harder to come by.

Sooner or later, stretched household finances will affect mortgage demand. That won't help with India's plan to get buyers back into the real estate market with deep interest-rate cuts.

Mind, there's no sign of a subprime crisis. At least, not yet. But prime borrowers are few in a country where just 27% of the women aged above 30 are in the workforce, unemployment is at a 45-year high of 6.1%, barely 23% of workers earn a regular wage, and only three out of the 10 who enjoy a steady salary have proper job contracts.

Unsecured loans can only offer banks a temporary shelter during a downturn in collateralized credit. That protection doesn't last long.

Bank of Baroda puts erstwhile Dena Bank's HQ on the block; sets reserve price of Rs 530 cr

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THE HINDU BusinessLine

The Bank of Baroda (BoB) has put the erstwhile Dena Bank's headquarters, located in Mumbai's prime business hub of Bandra-Kurla Complex (BKC), on sale via e-auction. It has set a reserve price of Rs.530 crore for the sale.

This move comes in the backdrop of Dena Bank and Vijaya Bank merging with BoB, which came into effect from April 1, 2019.

The e-auction is scheduled to take place on October 18.

Dena Bank had moved its headquarters to BKC from Cuffe Parade in 2004.

The Dena Corporate Centre in BKC is spread over 2878.36 square meters. It is has a built up area of 9953.73 sq mtrs. BoB's corporate office in BKC is spread over two buildings.

BoB has cited rationalisation of administrative offices as one of the immediate benefits that accrue to it following the amalgamation. The other benefits arise from common treasury operations and corporate banking.

In the medium term, the bank expects cost synergies to flow in from the optimisation of the distribution network, integration of IT infrastructure, data centres, and centralisation of operations.

A senior official of the erstwhile Dena Bank said that in the process of rationalisation of administrative offices and distribution network, BoB should ensure that it does not put the heritage Dena Bank building at Horniman Circle in South Mumbai on the block.

Last year, in one of India’s biggest commercial property acquisitions, market regulator SEBI had struck a deal last year to buy IDBI Bank’s seven-storey office building at BKC for about Rs.1,000 crore.

Dena Bank was nationalised in July 1969 along with 13 other major banks. The Bank was founded in 1938 by the family of Devkaran Nanjee under the name Devkaran Nanjee Banking Company Ltd. It became a public limited company in December 1939, and later the name was changed to Dena Bank Ltd.

Implications of RBI's fat dividend cheque

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The significance of the Jalan Panel report can be better understood through the structural shift in the RBI's balance sheet

The dividend payout of Rs.1,75,987 crore from the RBI to the government for 2018-19 follows a paradigm shift in the way that the RBI's requirement of economic capital is viewed, calculated and supplied, as also an accounting rule-tweaking to ensure higher income from forex transactions. To understand the significance of this development, it is useful to focus on the 10-year period, subsequent to the unification of the exchange rate of the rupee in 1993.

This is when the RBI's balance sheet underwent a structural shift from dominance of domestic assets to dominance of foreign assets. This change entailed important macroeconomic trade-offs that were never well-understood or articulated.

The trade-off

The shift, as above, resulted in a lower proportionate income, on the one hand; and higher risk exposure, requiring more economic capital for the RBI, on the other. This is the flip-side from the narrow perspective of dividend payouts to the government. But the upside of the trade-off has been lower structural inflation, stronger external stability and, possibly, lower external borrowing cost for Indian entities. The Jalan Panel (Expert Committee to Review the Extant Economic Capital Framework) has missed an opportunity to articulate this trade-off well, which could have put the issues in proper perspective.

The Subrahmanyam Group (1997) recommendations to bolster the equity of the RBI by raising Contingency Fund plus Asset Development Fund (CF+ADF) to 12 per cent of assets of the RBI by 2005, saw somewhat tardy growth in dividends, as the retention of net income rose and the old issue of low income from forex transactions lingered on. CF+ADF rose to an all-time high at 11.9 per cent of assets in 2009. In the wake of the 'Taper Tantrum' in the fall of 2013, when the rupee fell steeply leading to the currency revaluation balance bulging to Rs.5,20,113 crore (as on June 30, 2014), a policy decision was taken to put a stop to the retention of net income. The ratio of CF +ADF to assets fell in the subsequent years, as a consequence. It is rather ironic that in 2018, when this ratio at 7.04 per cent was a tad lower than in 1998-99 (the start year for strengthening its equity by higher retention of net income), it became almost a self-evident truth that the RBI was over-capitalised. The bulk of the logic — or rather, the absence of it — was that the currency revaluation balance was too high for comfort at Rs.6,91,641 crore!

Core recommendation

The RBI will be required to maintain adequate 'realised equity' — CF+ADF, in practice — to cover the other risks besides its most significant one, namely, market risk arising out of its holding of domestic securities and foreign assets, including gold.

The revaluation balances should normally be a sufficient risk buffer against market risk, unless they fall below a threshold which will be determined each year based on the output of a risk model, the specifics of which have also been provided.

Capital confusion and pitfalls

The panel's report, by identifying accounting equity — subscribed capital, reserves, risk provisions and revaluation balances — with economic capital, lays the ground for deviation from the main tenets of enterprise risk management. Revaluation balances, although falling under broadly defined equity, are not in the same league as the CF, since they cannot be used on a 'going concern' basis for absorbing all types of loss. This difference is reflected in the RBI's regulation that permits banks in India to reckon forex translation balance as equity capital, but after discounting by 25 per cent.

One lesson of the global financial crisis was that only common equity matters in crisis situations. Incidentally, the panel acknowledges that several central banks do not consider revaluation balances as economic capital. A practical difficulty in considering revaluation balance as the main supply source of the economic capital required to meet the demand for capital for market risk on an on-going basis is that while the latter will be more stable over time, the former can be highly volatile and fleeting, leaving open the likelihood of large gap arising between the two.

This is not merely a hypothetical possibility, as it actually materialised in 2007, when the revaluation balance had fallen to a low of 2.2 per cent of the total assets. Even a back-of-the-envelope calculation would show that the shortfall in realised equity would have been as high as 10 per cent of total assets. It would have made no difference even if the entire dividend payout that year at Rs.11,411 crore (only 1.14 per cent of total assets) was retained. Obviously, the shortfall would have been more pronounced if the CF+ADR then was lower at 5.5-6.5 per cent.

The upshot here is that revaluation balance alone cannot provide risk buffer against market risk. Hence, the reversal of the Subrahmanyam Group's recommendation to earmark 5 per cent of the realised equity to take care of forex volatility is unsound, based on empirical evidence. This conclusion is unlikely to be very different even if the risk estimations turn out to be somewhat lower. It is hard to imagine the response of the RBI and the government, should a similar situation arise in the future. To some, the option to weaken the rupee could have strong appeal.

Risk transfer mechanism

The panel prefers the term 'financial resilience' ***vis-a-vis*** 'capital' to denote the RBI's financial degree of freedom. It combines financial resources with the risk transfer mechanism (RTM) available to the RBI for absorbing/transferring losses to the government. The example of bonds issued by the government under the MSS for absorbing excess liquidity has been cited as an example in this regard. But it is also a fact that when the MSS was introduced in 2004 against the backdrop of a surge in liquidity caused by capital inflows, there was a tacit understanding that the interest cost of the bonds to be issued will be compensated by additional dividend payment by the RBI.

Similar was the case in another RTM in 1994, when the RBI was constrained to transfer to the government all the remaining liabilities under the FCNR(A) scheme, which was causing fast depletion of the CF. This deal too, had an understanding that RBI would offset the government's loss by way of higher dividend. Realistically, can anyone expect a general RTM with no strings attached, as in the US, the UK and South Korea, the examples of which are in the report? Not likely in the foreseeable future, particularly when one learns that the government is trying to mop up even the very modest internal reserves of SEBI as well.

The panel's report begins by stating a view that central banks do not need capital for their operations. While this point can be debated endlessly with strong arguments on both sides, in the Indian context, it is almost a certainty that the fiscal dominance over monetary and financial stability policies of the RBI will get entrenched and legitimised, if the net worth of the RBI were to turn negative.

Around the time the RBI was struggling with the financial burden of FCNR(A) liabilities in 1993, the central bank of the Philippines was liquidated on account of losses under more or less similar quasi-fiscal activities. As the cliché goes, fact is stranger than fiction.

PNB sets up working groups ease merger

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In the run up to the merger of United Bank of India and Oriental Bank of Commerce with Punjab National Bank, the latter has set up working groups for 23 functional areas, including products, processes, human resources, credit and bad loans, with participation of top officials from the three banks.

This is aimed at streamlining the amalgamation.

Sunil Mehta, MD & CEO, Punjab National Bank, said the merger is not only a legal merger but also a one in terms of technology, products and services, common services, etc.

“We will create an organisational structure where we don’t have to lose manpower. We capitalise on them and we are able to create new verticals (such as marketing), which is a win-win situation, creating value to the organisation and gains for the customers,” explained Mehta on the sidelines of the Indian Banks’ Association’s 72nd annual general meeting.

The PNB chief said the amalgamation issues are being deliberated by the respective boards of the three banks. PNB’s board has already given an in-principle approval for the amalgamation. The bank is working out a detailed amalagamation plan.

Mehta said all the three banks are on equal footing. Employees are going to gain out of it because the best of the facilities available in each of these banks will be made available to the employees of the unified entity. Another advantage is that there will be no retrenchment of staff. Further, there will be synergies between the three banks.

“For example, OBC has got good systems and processes. They have got a very good overlapping presence with PNB. So, we can take a lot of advantage of the synergies. We can optimise on our resources and create more value for the our stakeholders.

“United Bank of India has very good CASA (current account, savings account) deposits at 51 per cent of total deposits, which is highest in the industry. We do not have much presence in the Eastern and North-Eastern parts. There United Bank has got a very good presence. These synergies will definitely benefit the amalgamated entity,” said Mehta.

NCLT must be the last resort for resolving stressed assets: Anurag Thakur

Minister urges bankers to first look at out-of-court resolution

Bankers should refer stressed assets cases to the National Company Law Tribunal (NCLT) only if satisfactory resolution outside the Tribunal is not available, said Minister of State for Finance Anurag Singh Thakur.

Requesting bankers to try and resolve the stressed assets in right earnest, Thakur, in his keynote at the Indian Banks' Association's 72nd annual general meeting, said they should not use the NCLT process for every case.

Bankers say stressed assets cases are being referred to NCLT in increasing numbers due to the fear that their decisions on resolution via other routes, including one-time settlement, could be questioned later. However, the downside of this tendency is that if an asset is not revived within the stipulated period under NCLT then it goes straight into liquidation.

Reiterating the assurances given earlier by the Prime Minister and Finance Minister to bankers that decisions (relating to credit and recovery) taken by them in good faith, with a sound business rationale, in the normal course of business will not face any witch hunt, Thakur said: "The government is standing with the banking industry.

"And no decision taken in good faith will be treated adversely by any agency in the future. Feel free and take decisions in the interest of the banks and the country."

Funds flow

The Minister also urged the bankers to take decisions in a timely manner and ensure quick flow of funds. This can lead to an accelerated credit growth in the economy.

Referring to the government's goal of making India a $5-trillion economy by 2024-25, Thakur emphasised that banks have the responsibility of being drivers of economic growth.

“The track record of the banking industry inspires confidence that it will successfully deliver and contribute to our nation’s growth and well being.

“For any economy to grow and prosper, there should be easy availability of funds. Over the last five years, the government recapitalised the PSBs with over Rs.2 lakh crore. This has helped them immensely,” said Thakur.

Following the last tranche of recapitalisation and the increased flow of capital, the Minister expects the remaining four public sector banks (PSBs) to come out of the PCA framework. This will remove the lending restrictions on them. The PSBs that are under currently PCA include Central Bank of India, Indian Overseas Bank and United Bank of India.

Cheaper loans to MSMEs

Thakur expressed confidence that the recent step taken by the Reserve Bank of India, mandating banks to link their fresh loans to retail and micro and small enterprises (MSEs) to external benchmarks from October 1, will lead to cheaper funds for the borrowers.

“This will also reduce the cost of working capital loans for the industry. It is commendable that 14 PSBs have already come out with a repo rate linked product for home, vehicle and working capital loans.

“Only a fraction of the repo rate cut benefits has been passed on by banks to the borrowers (that is the companies). I urge the banking community to pass on the benefits of the rate cuts to the companies, which will lead to an increase in the consumption cycle, thereby leading to a revival in their investments,” said Thakur.