AIBEA's Banking News

23, 224, 25 JANUARY, 2021

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Beyond bad banks

| EDITORIAL, BUSIENSSLINE January 25, 2021

There is no tearing hurry to create one. Besides, it calls for legal and institutional groundwork

The Reserve Bank of India Governor recently indicated that he is not averse to the idea of a "bad bank" — a vehicle which uses capital infused by the government and others to acquire sub-standard loans from financial firms and pools them for reconstruction or sale, so that the rest of the system is able to lend freely. With RBI's recent Financial Stability Report estimating that banking sector NPAs may reach 13.5 per cent of gross advances by September 2021 in a baseline stress scenario, it is not surprising that the bad bank idea has re-entered the public discourse. It was mooted by the Economic Survey 2016-17 as a sort of PPP to deal with the 'twin balance sheet' woes of banks and India Inc. While the idea may be worth exploring, the timing appears to be a little premature. With the Supreme Court standstill on NPA recognition in place, the true picture on banking NPAs resulting from Covid is as yet unclear. If India's economy rebounds sharply in the first half of 2021-22, the situation may be less dire than the FSR projects. Prior to the pandemic, bank balance sheets had begun to show significant asset quality improvements. Therefore, the case for capitalising a bad bank generously, which is what an alarmist view of the banking sector leads up to, must be weighed carefully in a time of fiscal constraints. If investment appetite is slow to pick up, this could just lead to public money being parked in it idling when it can be fruitfully invested to spur demand.

A bad bank can be considered if the NPA situation turns out to be dire once accounting is normalised. Even so, it should be created as a one-time move; else, it would contribute to the moral hazard problem, where domestic banks repeatedly build up doubtful assets in every boom period. Banks, public sector ones in particular, should be compelled to improve governance. Effective oversight by the RBI, accompanied by functional autonomy, should replace the arbitrary ways of the CVC and CBI.

A bad bank will also need to be equipped with the skills to ascertain whether a unit can be revived, which entails hands-on knowledge of the sector in question — bankers often fall short on this. Asset reconstruction companies (ARCs), which seek to get the most out of a discounted asset, must be better placed to apply for management control by converting debt into equity. Under the Sarfaesi Act, they cannot easily change the line of business, even as the Bankruptcy Code (IBC) allows ARCs to apply for turning around an entity. The cross-currents between Section 29(1) of the IBC Act and Section 230 of the Companies Act — the former outlawing existing promoters and the latter giving them a chance — must be dealt with. The Centre must go beyond empowering creditors under IBC, to giving debt-strapped businesses a second chance if they are doing things right. Building better sector appraisal and analytical skills within lenders is therefore critical, irrespective of whether India takes the bad bank route or not.

Depositors reeling under the impact of interest rate cuts’

Our Bureau. Mumbai | January 24, 2021- BUSINESSLINE

The All India Bank Depositors’ Association (AIBDA) has told the Reserve Bank of India (RBI) that depositors are reeling under the impact of interest rate cuts and that there are no compelling reasons for it to reduce the repo rate.

In its pre-monetary policy representation to the RBI Governor Shaktikanta Das, AIBDA also underscored the charges imposed for debit card use when transactions are declined at ATM or POS due to insufficient funds in the account should be rationalised.

Further, the association requested the RBI to review its extant instructions to Payment Aggregators (PAs) and Payment Gateways (PGs) to ensure that these are not exploited by these entities to engage in profiteering.

The association observed that the sharp reduction in term-deposit rates, in the wake of the cumulative 250 basis points repo rate cut between August 2018 and May 2020, has adversely affected both the nominal and real interest incomes of depositors in general, and the small income earners and senior citizens more severely.

For example, a fresh deposit of one-year to less than two years’ tenor parked with the State Bank of India is now earning a saver 5 per cent interest against 6.70 per cent in August 2018.

After the last repo rate cut from 4.40 per cent to 4 per cent on May 22, 2020, this rate has remained unchanged for the last eight months.

AIBDA asserted that there are virtually no compelling grounds for the Monetary Poilcy Committee and the RBI to consider withdrawal of the "strategic pause" of the last about eight months with respect to the key policy rates as the recent fall in the retail inflation rate is tentative and fragile.

Exorbitant charges

The association said over the years banks have been imposing exorbitant charges on use of debit card whenever there is a transaction decline at ATM or point of sale (POS) due to insufficient balance in the account.

These charges are predominantly of the order of ₹25 plus Goods and Service Tax.

"Such exorbitant penalty for digitally paying consumers disincentivises them, thereby moving many away from digital payments.

"This applies more to the marginalised class of depositors who may not always have adequate funds in their accounts." said Sunil S Bhandare, President, and Amitha Sehgal, Honorary Secretary, AIBDA.

They emphasised that such bank charges do not make sense since the rationale behind it is flawed.

"We can still understand that as a deterrent, banks charge for cheque bounce, where Cheque/Electronic Clearing Service returns involve third parties and create distrust in the payment mode.

"However, declined POS/ATM transactions due to insufficient balances is nowhere at par with cheque/ECS returns. It does not involve any intent of systemic inconvenience or distrust to a third party," reasoned the AIBDA office-bearers.

AIBDA mentioned that there is no cost imposed by the National Payments Corporation of India/acquirer bank onto the card-issuing bank for debit card use when transactions are declined at ATM or POS due to insufficient funds in the account.

MDR

AIBDA flagged the current market practice of airline industry and even a few hospitals and other service institutions charging disproportionately high surcharges/ convenience fees, putting consumers at a disadvantage.

"It was expected that the RBI would bring forth regulation to ensure that such charges are reasonable and fair to consumers.

"But with the...instruction (Guidelines on Regulation of PAs and PGs), the RBI appears to have legitimised such charges. Moreover, there seems to be a back door entry to MDR (merchant discount rate) as PAs would typically enter into a revenue sharing arrangement with the acquirer banks," the Association said.

All these charges, unfairly, are ultimately thrust onto consumers who use the digital platforms, it added.

MDR is the fee charged by the acquirer bank (that provides necessary infrastructure to the merchant to accept payments) to the merchant.

ECLGS: Banks sanction 71% of Rs 3 lakh cr emergency credit scheme for MSMEs; disburse this much amount

Sandeep Soni | Jan 20, 2021

THE FINANCIAL EXPRESS

Under ECLGS 2.0, Rs 3,344 crore was disbursed to 1,188 borrowers out of Rs 15,571 crore sanctioned to 2,772 borrowers as of January 8, 2021. The amended version focused on entities in 26 stressed sectors identified by the Kamath Committee along with the healthcare sector

SMAs are special mention accounts, which show signs of incipient stress, that lead to the borrower defaulting in servicing the debt

The Modi government has enabled sanctioning of 71.3 per cent of its ambitious Rs 3 lakh crore Emergency Credit Line Guarantee Scheme (ECLGS) for Covid-hit MSMEs and other businesses as of January 8, 2021.

Under ECLGS 1.0, around 12 public sector banks, 23 private sector banks, and 31 non-banking financial companies (NBFCs) sanctioned loan amount of Rs 2,14,083 crore to 90,57,300 borrowers out of which Rs 1,65,886 crore was disbursed to 42,46,831 borrowers, according to the data shared by the Finance Ministry on Wednesday. This is up from 80,93,491 loans involving Rs 2,05,563 crore sanctioned as of December 4, 2020 while 40,49,489 loans were disbursed involving Rs 1,58,626 crore.

Launched in May 2020 to support small businesses disrupted by the pandemic and the following lockdown, ECLGS 1.0 was amended on November 26, 2020, and extended till March 31, 2020, with the introduction of ECLGS 2.0 that was expanded in scope. Under 1.0, an emergency credit line is offered to MSMEs and other businesses from banks and NBFCs up to 20 per cent of their entire credit outstanding as of February 29, 2020. MSMEs with up to Rs 25 crore outstanding and Rs 100 crore turnover were eligible. However, the turnover cap was removed post amendment in November.

Under ECLGS 2.0, Rs 3,344 crore was disbursed to 1,188 borrowers out of Rs 15,571 crore sanctioned to 2,772 borrowers as of January 8, 2021. The amended version focused on entities in 26 stressed sectors identified by the Kamath Committee along with the healthcare sector with credit outstanding of more than Rs 50 crore and up to Rs 500 crore as of February 29, 2020. The scheme also mandated borrower accounts to be less than or equal to 30 days past due as of February 29, 2020, that is, they should not have been classified as SMA 1, SMA 2, or NPA by any of the lenders as of February 29, 2020.

SMAs are special mention accounts, which show signs of incipient stress, that lead to the borrower defaulting in servicing the debt. While SMA-0 are accounts having payments partially or wholly overdue for 1-30 days, SMA-1 and SMA-2 accounts have payments overdue for 31-60 days and 61-90 days respectively. The revised scheme also has a five-year repayment window up from four years in ECLGS 1.0. National Credit Guarantee Trustee Company (NCGTC) is the guarantee provider under the ECLGS scheme.

Ensure farmers' right to remunerative prices

TN Prakash Kammardi | January 24, 2021- BUSINESSLINE

Farmers' organisations are right in seeking legal backing for MSP. The price deficiency payment scheme should be implemented

Due to certain peculiarities of agriculture, farmers as producers, unlike their counterparts elsewhere, are not in a position to decide the price of what they produce. Price discovery through sheer free play of supply and demand that rarely exists elsewhere, prevails in agriculture. That, unfortunately, relegate the farmers to price 'takers' rather than 'makers', and that is the root cause of the problem.

Keeping this serious deterrent in view, the government of India has been 'intervening' by declaring Minimum Support Price (MSP) to put a check on 'free market forces' so that the prices of farm commodities are not pushed below that benchmark level.

Though MSP is announced for 23 crops every year, actual procurement by the government may not cross even 5 per cent of farm production. Benefit of such procurement accrues mostly to paddy and wheat growing farmers of Punjab, Haryana and Uttar Pradesh.

According to a study by the Karnataka Agricultural Prices Commission (KAPC), 78 per cent of agricultural commodities are being transacted at prices below MSPs in different APMCs (Agricultural Produce Market Committees) in the State.

The situation at the national level is no different, as a majority of transactions were found to be below MSP — for paddy, they were below MSP in 12 States; for wheat and maize, in seven States; bajra, nine; and ragi, six.

And hence, the farmers' organisations are unequivocal in not only demanding a repeal of those unwanted farm laws but also candid in their claim for a 'legal recourse' to ensure that transaction of all farm commodities should be at prices not below the government declared MSP.

The roadmap

The KAPC, in this backdrop, has proposed Statutory Minimum Purchase Price (SMPP) based on either MSP or cost of cultivation for all farm commodities followed by an amendment to the State's APMC Act along with penalty and punishment so as to ensure that no buying from farmers takes place below the SMPP anywhere in the State.

A similar amendment was also suggested to the Essential Commodities Act that is under the preview of the Central government so as to introduce a uniform law across the nation. A private member bill was also introduced in Parliament in 2018 this regard.

The Market Assurance Scheme, once proposed by the Centre, empowers the State government to undertake procurement on time so as to siphon off the surplus. As permitted by the Centre, the State government should undertake direct procurement up to 25 per cent of the production of the crops that are under the coverage of MSP.

The novel Price Deficiency Payment Scheme (compensating the difference between MSP and market price) needs to be extended to other commodities, especially horticultural crops to the extent of 70 per cent of production; that is, double the current market arrivals in a State like Karnataka.

With these two crucial interventions preceded by a legal recourse, it is possible to arrest the price fall below SMPP for the main farm commodities of Karnataka. This requires an estimated annual budget outlay of around ₹11,500 crore. The financial requirement mentioned above is based on transactions of the past three years at different APMCs for 22 crops that occupy 85 per cent of Karnataka's gross cropped area.

As Karnataka contributes around 5 per cent of India's total farm production, by a simple extrapolation we can estimate that a lumpsum of around ₹2.30 lakh crore for a Price Stabilisation Fund may be needed to ensure farmers' right to a remunerative price discovery in principal farm commodities of the nation as a whole.

Supportive measures

In the meantime, farmers need adequate pledge loan to facilitate storage of their produces. Private traders, FPOs and co-operatives, who will be compelled to buy at MSP, need adequate support and incentives as provisioned under the Centre's innovative Private Procurement and Stockist Scheme.

The price that needs to be legalised — either the current MSPs or the one recommended by Swaminathan that ensures a margin of 50 per cent or a 'Reserve Price' that covers just cost of production as indicated by the Committee on Doubling Farmers' Income — must be settled first.

Further, the utilisation of procured farm commodities for public distribution and several other programmes envisioned under the National Food Security Act 2013 is a win-win solution to the present problems.

Measures such as district crop plan, crop specific production policies coupled with advanced market intelligentsia like price forecasting and supply projection will be handy to effectively address the mismatch between supply and demand.

An institutional arrangement with full autonomy to operationalise all the above so as to infuse an element of hope among the agitating farmers is needed at this point of time.

The writer is an agri-economist and a former chairman of the Karnataka Agricultural Prices Commission

Farmers reject Centre’s offer to defer the 3 laws

Our Bureau New Delhi | January 21, 2021
BUSINESSLINE

Farm organisations firm on repeal; to press on with R-Day tractor rally plan

Farmers unions on Thursday rejected the Centre’s offer to keep the contentious farm laws in abeyance and pressed on with their demand for repeal of the laws and an alternative tractor parade on Republic Day.

After hours of discussing the proposal, the 500 farmers’ organisations under the Samyukta Kisan Morcha (SKM) gathered at Singhu on Delhi’s border, and the protesters announced that they will stand firm on their demand for a total repeal of the laws.

“In a full general body meeting of the SKM today, the proposal put forth by the government was rejected. A full repeal of the three central farm Acts and enacting a legislation for a remunerative MSP for all farmers were reiterated as the pending demands of the movement,” said Darshan Pal on behalf of the SKM in the evening.

The farmers’ representatives will convey their decision to the Centre at a meeting scheduled for noon on Friday.

Pal said the SKM has also asked the Delhi police to let them conduct their tractor rally on R-Day.

“In the meeting held with the police officials, the police requested us not to conduct the parade in Delhi, while the farmers restated their plan about doing the parade on the Outer Ring Road,” he said. Different protest programmes are being planned in State capitals that day, he added.

The Supreme Court had, on Wednesday, refused to prevent the farmers’ tractor rally on Republic Day, saying the onus is on Delhi police. In the wake of the top court’s refusal to get involved in an executive decision, the Centre had come up with a new proposal to put the contentious farm laws in abeyance for up to two years and form a joint committee to discuss the laws clause-wise as also the MSP.

The Centre had said it was ready to file an affidavit in the Supreme Court to this effect to dispel any doubt.

But the farmers want the government to repeal the farm laws.

RBI slaps penalty of Rs.2 crore on Standard Chartered Bank

Our Bureau - Mumbai | January 21, 2021. NUSINESSLINE

The Reserve Bank of India (RBI) has imposed a monetary penalty of Rs.2 crore on Standard Chartered Bank–India for delays in reporting of frauds.

The central bank said the penalty has been imposed on the bank for non-compliance with certain directions issued by it contained in the 'Reserve Bank of India (Frauds - Classification and Reporting by commercial banks and select FIs) Directions 2016'.

"The penalty has been imposed in exercise of powers vested in the RBI under the provisions of…the Banking Regulation Act 1949, for delays in reporting of frauds to RBI, revealed during the statutory inspection of the bank with reference to its financial position as on March 31, 2018, and March 31, 2019," the RBI said in a statement.

The central bank said a notice was issued to the bank advising it to show cause as to why penalty should not be imposed on it for such non-compliance with the directions.

After considering the bank's reply to the notice and oral submissions made in the personal hearing, the RBI concluded that the charge of non-compliance with the aforesaid RBI directions was substantiated and warranted imposition of monetary penalty, it added.

The central bank said this action is based on the deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank with its customers.

Govt. defends decision that led to Adani bagging six airports

Jagriti Chandra. NEW DELHI, JANUARY 21, 2021, THE HINDU

Ministry says cap was waived considering operational scale

The Ministry of Civil Aviation on Thursday asserted that the Centre's decision to dispense with a cap on the number of airports a single entity could bid for — a move that paved the way for Adani Enterprises Ltd. (AEL) to emerge as the highest bidder for six AAI airports — had been taken on considerations of operational scale.

AEL has signed concession agreements to take over the Lucknow, Ahmedabad, Jaipur, Guwahati, Thiruvananthpuram and Mangaluru airports, after the Centre decided to privatise them.

"The EGOS (Empowered Group of Secretaries) took a conscious decision not to put any restrictions on the number of airports to be bid for or to be awarded to a single entity considering the fact that these six airports are smaller in size, handling only 9.5% of the passenger traffic whereas Delhi and Mumbai airports accounted for more than 45% of the total passenger traffic in 2006 when they were brought under PPP and the decision to cap one airport to single bidder was necessary," the Ministry said in a statement.

The ministry added that the quantum of passengers handled by private airport operators was 'crucial and [more] important than the number of airports handled by a single entity'.

In 2019, the Department of Economic Affairs had recommended a two-airport cap per bidder citing the capital intensive nature of the airport projects.

ALL INDIA BANK EMPLOYEES' ASSOCIATION

Central Office: PRABHAT NIVAS

***Singapore Plaza, 164, Linghi Chetty Street, Chennai*-600001**

Phone: 2535 1522 Fax: 2535 8853, 4500 2191

e mail ~ chv.aibea@gmail.com

Web: www.aibea.in