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Govt Banks Will Be Privatised, Confirms Finance Minister; Govt & RBI Will Create Privatisation Blueprint

By **Malvika Gurung** **Feb 8, 2021**

Trak.in

Sitharaman announces working with RBI in the process of privatizing two more public banks.

Last week after the budget meeting, we informed you of the Finance Minister's plans of conducting the privatisation process for two more public sector banks, besides IDBI Bank, along with two insurance companies, in the upcoming financial year, FY22.

In her budget speech, FM Sitharaman confirmed shifting the IPO process for LIC to FY22, along with introducing privatisation processes for two

PSBs and two insurance companies, while allocating Rs 20,000 crore for recapitalisation of banks.

The FM said the government would be working in conjunction with the Reserve bank of India to execute the bank privatisation plan announced in the budget.

She also added that there persists absolutely no plan of forming any bank investment company for housing government stakes in banks.

No Details Disclosed on Banks to be Privatised

In the Union budget meeting presented last week, Siathraman announced privatising 2 public sector banks, as part of the Government's disinvestment plan.

However, bank unions disapproved of it.

When asked about the proposal by ET, she said, "The details are being worked out. I have made the announcement but we are working together with the RBI."

She declined on giving any specific details about the two entities chosen for privatisation.

Bad Bank Proposal

A bad bank is a bank set up to buy the bad loans and other illiquid holdings of another financial institution so that the original institution may clear its balance sheet.

When asked about bad banks, Sitharaman said the government may have to give some guarantee for the National Asset Reconstruction Company.

She stressed that this solution has come from the banks itself and they will be the bodies leading this too.

She added that the NPAs of banks, which need to be transferred to the National ARC, have continually been mismanaged in the past.

However, this time, there shall be no "phone banking" entertained, giving undue advantage to benefactories from New Delhi.

She also stated that there hasn't been any proposal put forward on the Bank Investment Company (BIC).

Sitharaman also projected confidence in achieving budgetary estimates of Rs 1.75 lakh crore from divestments and said the government targets receiving about Rs 30,000 crore from the newly introduced agricultural infrastructure cess.

UFBU calls two-day strike from Mar 15 to oppose proposed privatization of PSBs by Centre

Hyderabad, Feb 9 (UNI)

United Forum of Bank Unions (UFBU) on Tuesday called a two-day nation-wide strike from March 15 to oppose the proposed privatization of Public Sector Banks (PSBs) by the Centre.

This was decided at the meeting of UFBU held here in which all the nine unions - AIBEA, AIBOC, NCBE, AIBOA, BEFI, INBEF, INBOC, NOBW and NOBO took part.

All India Bank Employees' Association (AIBEA) General Secretary C H Venkatachalam, who participated in the meeting, in a Circular to all Units and Members, and e-mailed to UNI said, the meeting discussed the various announcements made in the Union Budget regarding reform measures like Privatization of IDBI Bank and two Public Sector Banks, setting up of Bad Bank, disinvestment in LIC, privatization of one General Insurance Company, allowing FDI in Insurance Sector upto 74%, aggressive disinvestment and sale of public sector undertakings, etc.

The meeting observed that all these measures are retrograde and hence need to be protested and opposed.

After deliberations, the meeting decided that intensive struggle programmes and agitational actions have to be launched to fight back these policies of the Government, he said.

Mr Venkatchalam said, accordingly, a day long dharna will be held in all the state capitals on February 19, Relay Dharnas will be staged in all States/Districts/Towns from February 20 to March 10 and two-day strike on March 15 and 16.

He said further strikes will be decided looking to the developments.

The AIBEA General Secretary said the Central government's announcement to privatise PSBs is totally unfortunate and unwarranted. The need of the hour is to strengthen public sector Banks, he added.

The meeting took note of the continuing agitation by the farmers against the three Farm Laws, enacted by the Union Government and expressed its solidarity with their struggle.

The meeting adopted a Resolution urging upon the Government to reconsider their standpoint and find amicable solutions to the demands of the farmers.

It also took note of the hurry the BJP-led NDA government wants to go ahead with implementation of the new Labour Codes in which many existing labour rights have been diluted or taken away. He said the meeting urged upon the Central Government to restore all the existing hard won rights of the workers.

New Asset Reconstruction Committee: Banks likely to ask RBI to relax norms

By: Shritama Bose | February 4, 2021 FINANCIAL EXPRESS

The new ARC will have the advantage of the loan exposures being clubbed across banks, although this, too, is prone to challenges.

RBI's September 2016 circular mandated that, with effect from April 2018, banks would need to continue providing for loans sold as if they still were on the books.

Lenders, backed by government, could approach the Reserve Bank of India (RBI) for relief on provisioning for assets sold to the proposed asset reconstruction committee (ARC). They are expected to seek a relaxation of the September 1, 2016, circular which requires them to provide for an asset, assigned to ARCs, as if it were still on their books. Moreover, they are likely to ask the ARC be exempt from making future provisions for the assets it buys.

Experts observed that given banks are already holding a fairly high level of provisions incentives were needed to push banks to sell loans via a 15:85 model. The model implies that the sellers get 15% as upfront cash payments and security receipts (SR) for the remaining 85% of the value.

Should these exemptions be granted, it will give the new institution an upper hand over existing players, experts said.

Finance minister Nirmala Sitharaman said in her Budget speech on Monday an ARC would be set up to help banks deal with bad loans and later clarified the government would not be funding it. However, financial services secretary Debasish Panda has hinted at provisioning relief being offered through a government guarantee. Panda told reporters on Tuesday sales to the new ARC would be a cash-neutral transaction for banks. Since the regulator may insist on provisioning to support this arrangement, banks may request the government for a guarantee that could satisfy the regulator, Panda said.

RBI's September 2016 circular mandated that, with effect from April 2018, banks would need to continue providing for loans sold as if they still were on the books. The rule was applicable if the SRs received in the sale comprised more than 10% of bank's own bad loans. Consequently, hybrid cash-and-SR deals have dried up and banks have been offering bad loans to ARCs almost exclusively on an all-cash basis.

The new ARC will have the advantage of the loan exposures being clubbed across banks, although this, too, is prone to challenges. Industry executives FE spoke to said banks hold varying levels of provisions against the same asset and that would complicate the process. A senior executive in the stressed assets market believes private banks may not want to transfer the asset at book value. Implementation issues apart, he pointed out that no lender would want to make additional provisions if the asset is to be transferred in a 15:85 structure.

Budget does not address inequities, bold for its fiscal stance: Economists

Press Trust of India | Mumbai February 1, 2021 BUSINESS STANDARD

Economists hailed Finance Minister Nirmala Sitharaman for a "bold budget" focused on fiscal expansion but flagged concerns over the proposals for not addressing the problems of inequitable growth.

Concerns over the impact on the sovereign rating have been sidestepped in the budget by using a wider fiscal deficit for addressing the growth needs, they said.

The budget was widely expected to be a fiscally expansionary one, given the concerns on the growth front.

"The budget does not adequately address concerns over inequitable growth which has been a worry across the globe due to the pandemic. There has been no specific support for sectors stressed due to the pandemic like the hospitality sector," HDFC Bank's chief economist Abheek Barua said.

Terming it as a budget which is not populist, Japanese brokerage Nomura's country head Prabhat Awasthi said, "There is no major attempt to redistribute incomes by increasing taxes on high income groups, as was the case earlier."

Barua said this is a "bold budget" in many senses and the central intent has been to use expansionary fiscal policy to support growth sidestepping concerns over debt sustainability and sovereign rating with the fiscal deficit pegged at 6.8 per cent of GDP in FY22 from 9.5 per cent for FY21.

Siddhartha Sanyal, chief economist and head of research at Bandhan Bank said the budget was expected to emphasise supporting the nascent recovery in growth but the quantum of the total fiscal spending has surpassed expectation.

However, he said a decisive and credible stance on near term fiscal deficit and the FRBM (Fiscal Responsibility and Budget Management Act) targets was the need of the hour.

He said the fear of wider fiscal deficit resulting into risks to sovereign rating is only a partial picture, as dent in growth potential can also lead to rating downgrades.

Barclays India's chief economist Rahul Bajoria said the measures require a large increase in the fiscal deficit, and an overhaul of the deficit reduction glide path.

Rajni Thakur of RBL Bank said the budget announcements check all the right boxes for a year that needs unprecedented support from the government to revive economic activities.

(Only the headline and picture of this report may have been reworked by the Business Standard staff; the rest of the content is auto-generated from a syndicated feed.)

Central Bank of India Q3 profit rises 6% to ₹165 crore

Our Bureau. Mumbai | February 09, 2021/ BUSINESSLINE

Central Bank of India (CBoI) reported a 6 per cent year-on-year (y-o-y) increase in third quarter net profit at ₹165 crore against ₹155 crore in the year-ago quarter.

The public sector bank's bottomline was supported by a 10 per cent y-o-y increase in net interest income (NII) and 48 per cent y-o-y decline in loan-loss provisions.

NII (difference between interest earned and interest expended) stood at ₹2,228 crore (₹2,022 crore in the year-ago quarter).

Non-interest income, comprising commission, exchange and brokerage, trading profit on investments, recovery in written off accounts, among others, was down 38 per cent y-o-y at ₹774 crore (₹1,249 crore).

Loan loss provisions were lower at ₹565 crore (₹1,089 crore).

Gross Non-Performing Assets (NPAs) declined to 16.30 per cent of gross advances as of December-end 2020 against 17.36 per cent as of September-end 2020.

Net NPAs declined to 4.73 per cent of net advances as of December-end 2020 against 5.60 per cent as of September-end 2020.

With proforma slippages (adjusted for the Supreme Court's interim order on asset classification standstill), Gross and Net NPA ratio would have been 18.19 per cent and 6.58 per cent, respectively.

Net interest margin edged up to 2.97 per cent from 2.92 per cent a year ago. Credit cost has come down to 1.28 per cent from 2.66 per cent a year ago.

Gross advances were up 9 per cent y-o-y to ₹1,80,856 crore as of December-end 2020, mainly on the back of growth in MSME advances (12 per cent growth), retail (11 per cent) and corporate (9 per cent).

Total deposits increased by 5 per cent y-o-y to ₹3,23,872 crore as of December-end 2020. The proportion of low-cost current account, savings account (CASA) in total deposits improved to 48.11 per cent from 45.82 per cent a year ago.

IOB reports net profit of ₹213 crore in Q3

Our Bureau. Chennai | February 09, 2021 - BUSINESSLINE

Overall improvements may see bank exiting PCA framework soon

Indian Overseas Bank’s prospect to exit RBI’s PCA (prompt corrective action) brightened further as the Chennai-headquartered public sector bank exhibited an impressive performance for the December 2020 quarter with good profit and improvements in asset quality.

IOB was brought under RBI’s PCA programme, which put several restrictions in September 2015, after reporting high levels of bad loans. With various efforts in recent years, the bank managed to trim losses and contain slippages, even as capital infusion by the Government of India aided the bank’s turnaround.

It has now reported a good net profit for the fourth quarter in a row, while asset quality has also been improving quarter-on-quarter basis. Thus, with improved parameters, chances are bright the bank will move out of the RBI’s PCA framework soon.

For the quarter ended December 31, 2020, IOB reported a net profit of ₹213 crore against a net loss of ₹6,075 crore in the year-ago quarter, driven by higher non-interest income and lower provisions.

Operating profit of the bank more than doubled to ₹1,731 crore from ₹762 crore.

Gross NPA as of December 31, 2020, stood at 12.19 per cent against 17.12 per cent as on December 31, 2019. The net NPA dropped to 3.13 per cent from 5.81 per cent in December 2019 quarter.

“Now, IOB has been generating profits continuously for the past four quarters, and the quantum of profit is also increasing. In Q3, too, there were marked improvements in all parameters. There was perceptible reduction in gross and net NPAs. Also, provision coverage ratio improved to 91.91 per cent, one of the best in the banking industry. In a nutshell, IOB has performed well and will continue to show good results," said Partha Pratim Sengupta, Managing Director & CEO of IOB.

Interest income fell to ₹4,244 crore (₹4,352 crore in Q3 of FY20), while non-interest income was 83 per cent higher at ₹1,543 crore (₹846 crore). Total income stood at ₹5,787 crore (₹5,198 crore).

Total recovery, including technical write-off, stood at ₹1056 crore, slightly higher than its collection target of ₹1,000 crore for the quarter.

Gross advances stood at ₹1,37,469 crore (₹1,38,643 crore as on December 31, 2019). The bank has evolved a policy of not taking fresh exposures in stressed sectors.

With expected restructuring of ₹2,000 crore worth of accounts in Q4, the total restructured assets are estimated at ₹3,000 crore in FY21, about 2.5 per cent of the book. About ₹18,000 crore worth of assets await NCLT resolutions. Any positive outcome will add to the bottom line of the bank.

Union Bank of India to rationalise 950 branches soon

G Naga Sridhar Hyderabad | on February 08, 2021- BUSINESSLINE

Union Bank of India plansto rationalise about 950 of its branches soon. "As per the consultant's report, the bank has targeted to rationalise about 950 branches in the first year of amalgamation of Corporation Bank and Andhra Bank with itself," a senior Union Bank official told *BusinessLine*.

Corporation Bank and Andhra Bank were amalgamated with Union Bank with effect from April 1, 2020. The government, in August 2019, had announced the merger of 10 public sector lenders into four bigger and stronger banks.

"The real benefits of amalgamation will only be derived if rationalisation of branches happens," the official added.

The close proximity of branches of erstwhile Andhra Bank, Corporation Bank and Union Bank, besides optimisation of operational costs and the need to avoid business overlap are among the factors that are driving rationalisation plan.

Union Bank now has over 9500 domestic branches and 13,300 ATMs with 75,000 employees.

Meanwhile, the bank is struggling with delay in integration of Andhra Bank's operations, even 10 months after the amalgamation.

In many branches, customers are not being allowed to deposit cheques for clearance. "In the last 10 days I went two times to deposit a ₹60,000-cheque in my account and it was not accepted citing integration problems," M Karunakar, a customer of Andhra Bank, told *BusinessLine*.

Similarly, erstwhile Andhra Bank's ATMs are non-functional in many locations, which is forcing customers to withdraw from the ATMs of other banksby paying additional charges.

At some branches, notices have also been displayed stating that there was disruption due to the integration of operations.

"It is true that there has been a disruption. But we are working round-the-clock and, as of now, 65 per cent of erstwhile Andhra Bank's ATMs are functional," said the Union Bank official.

The clearing of cheques will also reach normacly in about a week to 10 days, he added.

Will transfer Rs 2.2 lakh crore NPAs to 'bad bank': Financial Services Secretary

NEW DELHI: TIMES OF INDIA 4TH FEB 2021

Financial services secretary Debasish Panda is responsible for implementing some of the key measures – from privatising two banks and a general insurer to setting up a development financial institution and faster payment of depositors stuck in ailing banks.

In an interview, Panda explains the strategy behind the proposals.

Excerpts:

The budget has increased the FDI limit in insurance to 74% from 49%. What is the kind of inflow that you have estimated and how do you ensure there are safeguards?

Given the widespread concerns raised towards individual and organizational protections in the wake of Covid-19, there is a need to increase insurance penetration and awareness and further opening-up of FDI will be a step in this direction.

During 2000-2015, FDI inflow were around Rs 9,961 crore while post-2016, about Rs 26,000 crore of FDI has come in this sector. With the opening up of FDI in the insurance sector, fresh capital inflows, desired increase in insurance penetration and density, introduction of new technologies and innovation, global best practices and systems, new products and enhanced customer experience would follow and we expect a good number of investments coming.

When do we expect the bill to be introduced in Parliament?

Amendments to the Insurance Act, 1938 is required. We are working on it and we hope to introduce this in the current session of Parliament.

What was the need to revisit the development financial institutions as you already have IFCI and IIFCL was set up a few years ago?

In the past, DFIs have anchored India's industrialisation. At that time there was no framework for infrastructure financing and hence they were focussed on industrial development and not as much on infrastructure creation. These DFIs struggled when they lost concessions and access to alternate sources of cheap funds. Hence, most of the DFIs converted themselves into commercial banks over time.

IIFCL also had no concessions unlike earlier DFIs. Banks are not suitable for infra financing on account of their asset-liability mismatch concerns, though they can only supplement.

There are market gaps to cater to the needs of infra financing and therefore a dedicated DFI for long term project finance is needed now. Although the mandate for IIFCL was for a DFI… The mandate was for infrastructure financing. The developmental role was not assigned in the true sense of the term. Proposed DFI would have both roles – development functions and financial functions.

Now, if an investor comes and he wants to build an expressway or an airport, there is nobody to guide him on how to structure the project. This proposed institution will play that role.

This is the mandate of the institution and it is proposed to bring it through a bill. Why? Because there will be a sovereign backing that will lend a lot of confidence to the investors.

Second, within this set up we are also proposing for establishing private DFIs. Initially, the government will have 100% stake and overtime taper it down to 26%. It would be regulated by RBI.

Will you merge IIFCL with this entity?

IIFCL has the experience, has some domain expertise in infra financing. They have the manpower which is fairly experienced, and knowledgeable in long-term infra financing. It would be prudent to subsume it into the proposed DFI, build it around that, so that we have a quick start

Regarding the privatisation of banks and insurance company it will require changes in laws. Can you please elaborate?

As regards to privatisation, we now have a new disinvestment policy. For the identification of banks etc, it will go through three layers – NITI, core group of secretaries on disinvestment and Alternate Mechanism (of ministers) and then a decision will be taken at the highest level.

After this process, necessary legislative amendments will be moved.

How will the 'bad bank' or new structure of the asset reconstruction company and the asset management company work?

There are some legacy NPAs of approximately Rs 2.2 lakh crore and the banks are not able to extract the money. They are all stressed assets, around 70 assets of more than Rs 500 crore.

Most of existing ARCs are thinly capitalised – necessitating to set up a new structure to resolve these stressed assets urgently. Under the proposed ARC–AMC model, the ARC will aggregate all the stressed assets and transfer the assets to the AMC, a skilled and professional asset management company, for resolution.

The transfer of stressed assets to the ARC will happen at net book value, which is value of assets minus provisioning done by banks against these assets. The bank will get 15% cash and 85% security receipts against bad debt that will be sold to the ARC.

The new structure will enhance the value or at least preserve the value and then ultimately sell it through a market price discovery mechanism to a potential investor or to an AIF.

The proposed ARC will be set up by state-owned and private sector banks, and there will be no equity contribution from the government. However, government may provide sovereign guarantee needed to meet regulatory requirements.

The new structure will reduce the load of stressed assets on the bank balance sheet and look to resolve these bad debts in a market-led way.

On the deposit insurance what exactly is being done?

Last year, the government had approved an increase in the deposit insurance cover from Rs 1 lakh to Rs 5 lakh for bank customers. I am told around 90% of depositors will be covered. But the pay-out takes a long time.

We are now examining a proposal to amend the DICGC Act to streamline the provisions so that if a bank is temporarily unable to fulfil its obligations, the depositors can get easy and time-bound access to their deposits to the extent of the deposit insurance cover. This will help depositors of banks that are currently under stress.

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