ALL INDIA BANK OFFICERS' CONFEDERATION

(Registered under the Trade Unions Act 1926, Registration No.:3427/Delhi)
C/o Bank of India, Parliament Street Branch
PTI Building, 4, Parliament Street, New Delhi:110001
Phone:011-23730096 Tel/Fax 23719431
E-Mail: aiboc.sectt@gmail.com

Letter No. 2016/63 Date: 10/06/2016

Shri Raghuram Rajan,
Governor, Reserve Bank of India,
Mumbai.

Respected Sir,

OUR CONCERNS FOR THE INDIAN BANKING SYSTEM PARTICULARLY FOR PUBLIC SECTOR BANKS

On behalf of All India Bank Officers' Confederation, we convey our sincere thanks to you for sparing your valuable time and giving us an audience to share our concerns on the present state of affairs of the Banking Industry caused mainly due to mounting NPAs that are threatening the very existence of the Banks. We in our representative capacity (representing more than 2.5 lac officers) on the Boards of various Public Sector Banks and also as citizens of this country are looking forward for an early resolution of the crisis and hence presenting our views and suggestions, before you.

Image of Banks, particularly, that of Public Sector Banks in India, has been largely hit with the worsening Balance sheets. Investors, among other things, would largely look at the dividend paying capacity of the banks and the long-term appreciation of their invested amount. The deteriorating balance sheets of PSBs have serious implications on the Banks as follows:

- Adversely impact the share price despite a relatively higher book value.
- Bring down the market capitalisation.
- Impair the ability of the banks to raise capital.
- Increase the Cost of Capital.
- Reduce the Net Worth unrealistically.

Though the objective of RBI to cleanse the Balance Sheet of Banks is laudable but the implementation part lacks practical approach and is leading to collapse of banks and economy. In 1992, when Banking reforms were introduced, it was a holistic and comprehensive approach with IRAC norms and legal reforms were introduced in comprehensive manner. Within a decade, the banks gained excellent health in early 2000 and banks came out with successful IPOs. Therefore, the reasons attributable to the present situation need to be reckoned and addressed. The main reasons are:

(a) Stress caused by large corporate loans, particularly to sectors like Steel, Aluminum, Textiles, Cement, Mining, Commercial Real Estate, Power, Infrastructure etc.

(b) Downturn in global economy adversely affecting exports,

(c) Delay in Government approvals and land acquisition,

(d) Fall in corporate values, governance and ethics,

(e) Inadequacy of stringent loan recovery mechanism,

(f) Lack of skills to evaluate long-term projects' revenue stream leading to acceptance of unrealistically high projections,

(g) Balance Sheet management *vis-à-vis* provisioning norms, While the listed sectors except (g) need Government support through various policy measures and transparent & speedy disposal of various approvals and acquisition, the downturn in the economy and issues relating to values, governance and ethics would need concerted efforts on a long term basis.

Recovery of loans and interest thereon has largely depended on the generosity of the borrowers towards banks. Government despite various pronouncements, on the contrary, has failed to provide for stringent laws on loan recovery including dealing with willful defaulters. **RBI needs to support PSBs by insisting on Government to legislate adequately and empower Senior bank officials with judicial powers on the lines of Income Tax Tribunals. There is also an urgent need to revive long-term lending institutions and restrict the activities of PSBs to commercial banking mainly working capital and short & medium term loans.**

BALANCE SHEET MANAGEMENT:

Preparation of Balance Sheet of Banks has undergone many major changes which is mainly responsible for the present state. The real problem is not the identification of NPAs, but the solution to the present situation. Implementation of Basel III along with managing cleaning of Bank Balance Sheets is a difficult task. RBI approach in transformation should be supportive. Capital raising will be a major issue and the Government also cannot help fully. Under these circumstances, sudden implementation of AQR has placed the Banks in a still more difficult situation.

It is well known fact that the most profitable bank in India is RBI with over Rs. 50,000 Cr profit. **The Regulator makes more profit when commercial banks are in loss !** There appears to be some serious gap in the system. There is need for RBI to address these issues immediately for which following measures are suggested:

1) Capital Adequacy (CRAR):

Basel Norms are a misnomer in Indian conditions. Real question is whether these norms need to be applied to social banking under the ownership of Government. Comparison of Public Sector and Private Sector Banks is not at all desirable. Thanks to frequent infusion of capital by Government, PSBs are adequately capitalised. It is pertinent that after listing of PSBs on stock exchanges, the Government has garnered dividend, dividend payout tax and income tax from PSBs which would aggregate to an amount far exceeding the amount of capital infused by the Government. The Government continues to derive the benefit of implementing its various social schemes through PSBs at a minimal cost. Recent PMJDY is a glaring example which costs PSBs over Rs.1000 crores in addition to Rs.167 crores collected by IBA from member banks towards cost of advertisement.

2) Provisioning of Loans:

Cleaning up of the Balance sheet is a process which is appreciated by one and all. But ignoring the cumulative impact of soft paddling of NPAs in the past years, Liberal restructuring since August, 2008 and AQR has pushed the panic button. Permitting spread of Provisions, as permitted earlier, is necessary to maintain confidence of public at this juncture. It is suggested that the provisioning should be restricted to declared bad and doubtful debts. The following extra provisioning in vogue should be done away with:

a.	Provision on CDR/SDR	5%
b.	Provision on Teaser Loans	2%
c.	Provision for Commercial Real Estate (CRE) loans	1%
d.	Provision for Priority Sector/ MSME loans	0.25%
e.	Other 'Standard' Loans	0.40%

It is learnt that more than Rs.20,000 crores are held in the Balance Sheets of PSBs towards these provisions and since the provisioning norms for NPAs are quite adequate and stringent, this amount can be unlocked.

3) Provision for Securities and Equities:

Banks are required to make provision for decline in the value of securities and equities on a real time basis as and when there is decline in their market value. It is suggested to do away with this provision as the same is accounted for while booking the loss on transactions. Alternatively, RBI should permit netting of these provisions against the appreciation in value of other securities and equities and also the properties in the form of land and building. The system of allowing re-valuation of properties once in three years and treating only 45 per cent of appreciation as Tier-II capital need to be modified by permitting valuation every year and treating 80 per cent of appreciation as Tier-II capital leaving 20 per cent to guard against any correction in market rates.

4) Depreciation:

The banks are allowed the freedom to formulate their own depreciation policies. It has led the banks to use different rates of depreciation on similar assets. There is a need to bring about uniformity among the banks for transparency in their balance sheets.

5) Payment of Income Tax:

Both PSBs and Income Tax Department are under Ministry of Finance, Government of India. There is a peculiar situation where Income Tax (IT) Department raises its demand even on loss making banks. It is because IT recognises *'Operating Profit'* as taxable instead of *'Declared Net Profit/Loss'.* The charge to profit & Loss Account towards provisions is disallowed as an expense. But this is the major item which has been causing the PSBs to show *'Net Loss'.* Even the provision/payment of Income Tax ridiculously increases the *'Declared Net Loss'* of the banks. Other Sectors are treated differently by IT. RBI in its own wisdom should advise Government to stop the unfair requirement of recasting the Balance Sheet for Income Tax Purposes. Policies of RBI and Government should match and Balance Sheet prepared as per the accounting policies of RBI should be acceptable to Income Tax Deptt.

6) Interest on CRR balance:

There is a 'negative carry' on CRR and SLR. When banks are bleeding and RBI is posting fabulous Net Profit, it would be fair and equitable for RBI to pay interest on CRR balances to the banks.

7) Transmission of Repo Rate:

The Repo Rate bearing funds of banks contribute hardly 2-4 per cent of NDTL. Hence a '25-paise cut' in Repo Rate would have an impact of about 1 paisa on Base Rate of the banks. The transmission theory is therefore a myth and cannot be insisted upon unduly. In a deregulated interest rate regime, there is a need to fix interest rates on loans in such a manner that the business of banking becomes sustainable. **In a developing economy, there is also a need to protect the purchasing power of senior citizens who survive on interest income only. Excessive decline in Base Rate would lead to compulsive reduction in interest rates of deposits thereby not only compelling the small depositors to cross-subsidise the large corporate but also push them to look for the alternate channels and playing in the hands of unscrupulous agencies**.

8) Need to increase coverage under DICGC

Deposit Insurance and Credit Guarantee Corporation (DICGC) was established long back in 1978 to provide confidence to depositors on the Banking system but Insurance coverage is kept at a meager amount of Rs. 1 lac per depositor in case the Bank fails. Value of money has depreciated drastically and deposits in the Banking system have grown hundreds fold. There is an urgent need for increase in the coverage/claim amount to rebuild the confidence of common man which has shaken due to the policies of the Government/RBI.

We sincerely believe that if the above issues are not addressed there will be serious repercussions leading to fears and mutual mistrust which, in turn, would badly affect Investment atmosphere and economic activities in the country. Besides there are many other issues which are causing lot of concerns to the Bankers, Bank Employees, Corporate and common citizens of our country which need to be addressed. Some of them are listed below for your attention and resolution:

i) Under the present circumstances there is no need for 5/25 scheme and SDR. These instruments will only aggravate the problem after few years. India is not a country where sick units can be purchased and revived and sold. We feel that SDR is not at all successful here.

ii) While financing against Hypothecation of Stock, Stock is under the direct control and possession of the customer. Non availability of stock at any point of time is presumed as fraud on the presumption that the borrower has alienated the security and the bank staff is held responsible for the fault of the borrowers. This system needs re-look. Working Capital by way of running limit against stock and debtors should be in the form of demand loans.

iii) Multiple Banking is one of the main reasons for excess borrowing by the Corporates. Consortium should be made compulsory if the banking exposure is more than Rs.100 crores.

iv) There needs to be a coordinated approach by the Regulator and the Government in dealing with the national issues affecting banks. Banks are subjected to unnecessary wrath of the Regulator in the absence of any such understanding.

v) It is also submitted before you that as per Nationalised Banks (Management of Miscellaneous Provisions) schemes, framed under Banking Companies (Acquisition and Transfer of Undertakings) Act 1970 and 1980, nomination/appointment of one Director from among the employees who are not workmen is a must. But in many of the Banks the positions are lying vacant for a long time without any reasons. This is not good from the point of view of governance of the Banks. Positions of Workmen Directors are also vacant in many Banks. We request you to use your good offices/authority to ensure that atleast sanctity of important Legislations affecting the functioning and governance is taken care of.

It is not out of place to mention that another important reason for present state of affairs in PSBs is undue interference by outside agencies, particularly CBI and CVC, questioning the bona-fide decisions. Ironically, bankers who are victim of frauds committed by borrowers/scrupulous persons are made accused and are being criminally prosecuted. This has led to indecisive attitude of officials and consequently, the banks' functioning is presently paralyzed. We need to distinguish between the lapses committed by staff and advantage thereof taken by borrowers in committing fraud on the one hand and staff being party to the fraud. The former case warrants departmental action whereas later case warrants both departmental action and criminal action. There are numerous cases where disciplinary authorities in Banks are being pressurized by CBI to give permission for prosecuting the staff though bank is fully convinced that staff decision was based on commercial considerations and not on vested interest. Bank officials are maltreated and threatened during investigation itself. Bankers are more vulnarable after retirement because CBI does not need any permission for prosecuting retired bankers. Around one per cent of advances are presently fraud cases. Does it mean that we should allow 99% of business to suffer while taking care of 1% of fraud cases? Credit appraisals are done as banker and not as investigating agency. It should be left to the decision of banks to ascertain staff accountability. How can the Management motivate the staff down the line when it itself is demotivated due to above reasons! We request you for your pronounced role as Regulator to save the Public Sector Banks.

Once again expressing our sincere thanks,

Yours faithfully,

(HARVINDER SINGH)
GENERAL SECRETARY