AIBEA's Banking News

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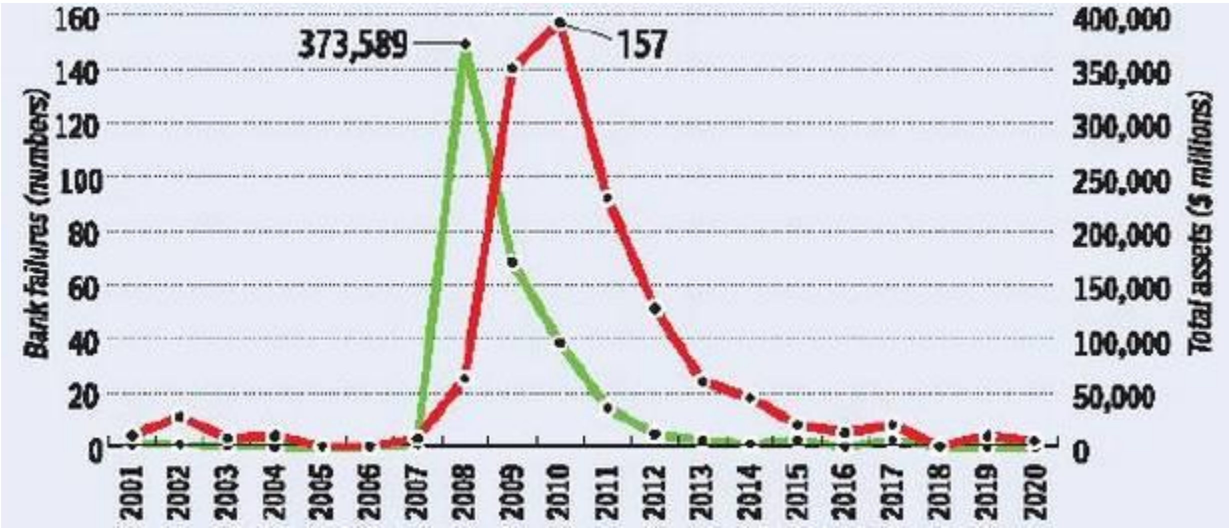
NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Why privatisation of public sector banks won't work

Shekar Swamy September 28, 2020

Businessline



US private banks fail routinely and are bailed out with public funds. Rajan, Acharya should know our depositors deserve better

Raghuram Rajan and Viral Acharya, former governor and former deputy governor of the Reserve Bank of India, get a lot of play in the Indian media. Recently, they published a research paper —'Indian Banks: A Time to Reform?' on September 21 which has been widely reported. Both the authors have had enough exposure and access to information about the harsh events that have taken place in the world of finance and banking.

So, when they write a paper, one would expect these experiences provoke a thoughtful reflection. It amounts to a shocking failure of academic rigour and integrity that the prescriptions given in the paper, euphemistically called reforms, become unidimensional, looking at one aspect of banking and completely ignoring the needs of the most important stakeholder.

Rajan and Acharya say that due to the pandemic, India cannot afford to fund its banks. The dimension they focus on is credit growth and management of loans — the assets side of the banks' balance sheet. Therefore, one of their prescriptions is the oft-repeated agenda of Big Capital, which is the privatisation of Indian banks and handing over the banking system to investors. The authors identify these investors on page 24 of their paper: "It might be especially valuable if these investors have financial sophistication (a *foreign financial firm* or a domestic private bank) and technology sophistication (a fintech firm or a technology-focused *private equity* investor)" (emphasis mine).

Rajan and Acharya's paper includes many recommendations under different heads such as 'Dealing With Bad Loans', 'Improving Performance', 'Alternatives For Ownership Structure of Banks', 'Strengthening Risk Management' etc.

Let's, for now, look at the proposal to privatise public sector banks.

The question of ownership has to be seen first from the perspective of the most important stakeholder in banks — the depositor. This is the liabilities side of the banks' balance sheet, the side ignored by Rajan and Acharya. There are around 2.5 billion current and savings accounts in Indian banks. This is the source of money for the banks to lend. The loans extended by banks would be less than 10 per cent of this number, including credit card loans.

A bad idea

Privatisation of banks is a terrible idea from the depositors' point of view for reasons given below:

1) Private players in the financial sector are prone to failure: The world felt the shock waves as the financial markets collapsed in 2008, caused by over-reaching private players. In what has been documented copiously as the subprime mortgage crisis, this resulted in the biggest economic downturn since the great depression of the 1930s hurting millions of people.

A deeper crisis was averted only with the US Federal government, and other governments, providing the bailout. What is remarkable about this crisis is this — not one banker or executive of a financial organisation went to jail for this extraordinary level of fraud imposed on the world. Rajan and Acharya are advocating that Indian banks should be handed over to investors and private players with a similar DNA.

2) Private banks fail all the time: The website of the US Federal Deposit Insurance Corporation (FDIC) — an independent body created by the US Congress to maintain stability and public confidence in financial system — carries this information prominently. In the 20 years from 2001 to 2020, as many as 559 private banks with assets of $721 billion failed in the US (see chart). What happened to the depositors? It was the problem of the FDIC to bail them out.

The principle followed by private banks is this. When they make profits, it goes to shareholders. When they make losses, it gets socialised and falls in the lap of the government to make good the deposits either through insurance or taxpayer bailout. This has happened again and again. This is what Rajan and Acharya are prescribing as reforms.

3) Big private banks can fail any time: There is a myth that if a bank gets large enough, it will not fail. Wrong. While one can agree that the larger the bank, the greater its ability to absorb losses, this does not mean it cannot fail. The axiom "Higher you go, harder the fall" applies best to private banks. This year we were all witness to the failure and subsequent reorganisation of YES Bank.

Let's take some bigger examples.

Citibank: Founded in 1812, this is an outstanding example of how large banks fail and get rescued by taxpayers. In 1998, Citicorp merged with Travelers to form Citigroup to be hailed as the first modern American "universal bank" that could offer comprehensive banking, securities and insurance services to its customers.

Within a decade, Citi's strategy proved to be disastrous. The bank recorded more than $130 billion of write-downs on its loans and investments from the second half of 2007 through the end of 2009.

To prevent Citigroup's failure, the US government injected $45 billion of new capital into the bank and provided it with $500 billion of additional help in the form of asset and debt guarantees, and liquidity assistance. Citibank survives today thanks to its bailout with public money.

Washington Mutual Bank: Washington Mutual is the largest bank failure in US history. The bank was wound up after 119 years; private bank failure can happen at any time no matter how large. In 2004, WaMu was the sixth-largest bank in the US and a leading mortgage lender with $300 billion in assets, $188 billion in deposits, 2,300 branches in 15 states, and over 43,000 employees. By 2006, following a high growth strategy, WaMu's loans began incurring record rates of default, and its securitisations saw ratings downgrades and losses.

In 2007, the bank went into the red. Its shareholders lost confidence and depositors began withdrawing funds, causing a liquidity crisis. In September 2008, WaMu was seized by its regulator and sold to JP Morgan Chase for $1.9 billion. Had the sale not gone through, WaMu's failure might have exhausted the $45 billion Deposit Insurance Fund.

There are countless examples of failures of private banks all over the world. Rajan and Acharya advocate privatisation because they say India cannot fund its banks due to the pandemic. **Pandemic or not, hundreds of millions of Indians are not worried still if their bank deposits are safe, thanks to the sovereign ownership**. **Isn't that something?**

The writer is Group CEO, RK Swamy Hansa. Views are personal

Comments from AIBEA:

From All India Bank Employees Association we fully endorse his views. AIBEA fought for nationalisation of Banks and achieved it not for any dogma but on a basic issue. In those days, so many private banks were getting closed and along with that, the Depositors were losing their hard earned savings.

To champion their case, AIBEA took it up. Initially Deposit Insurance Act came. We were not satisfied. We demanded nationalisation and protection for people's savings. Further we also wanted credit to needy sectors of the economy for India to develop while private banks were reluctant to grant loans to these sectors.

1969, Govt. relented and major banks were nationalised. 50 years are over and, despite all that are spoken against the public sector banks, no one can dispute the great contributions of PSBs in 1) safeguarding people's money, 2) giving loan to needy sector, 3) contributing to economic development. 4) ensuing direct and indirect employment in a big way.

During this 50 years, only private banks, even big ones, have collapsed. Hence there is no need for privatisation of banks.

Shareholders reject appointment of Sunil Gurbaxani as MD, CEO of Dhanlaxmi Bank

Our Bureau Mumbai | September 30, 2020

BUSINESSLINE

Dhanlaxmi Bank's shareholders on Wednesday rejected the appointment of Sunil Gurbaxani as MD and CEO, with 90.4 per cent of the votes polled being against the resolution seeking approval for his appointment at the Bank’s 93rd annual general meeting.

Following this development, the Reserve Bank of India (RBI), which has two additional directors on the Board of the Thrissur (Kerala) based Bank, may set up a committee of directors to look after daily affairs of the Bank.

Out of the 10 resolutions which were put to vote, **only Gurbaxani’s appointment was not approved by the shareholders,** according to the Bank’s regulatory filing.

Appointments approved

The nine resolutions that were approved with a majority of over 99 per cent of the votes polled included the appointment of five independent directors – Gopinathan CK, G Subramonia Iyer, Capt Suseela Menon R, G Rajagopalan Nair, and PK Vijayakumar; and to increase the authorised share capital (from Rs 300 crore to Rs 400 crore) and consequent alteration to the Memorandum of Association & Articles of Association of the Bank.

Sunil Gurbaxani’s appointment as MD and CEO of Dhanlaxmi Bank on February 20, 2020 for three years came about three months after T Latha resigned the top position at the Bank on October 30, 2019.

A tug of war between Dhanlaxmi Bank’s large individual shareholders with roots in Kerala and the new management, that is keen on roping in new shareholders, is apparently the reason the old-generation private sector bank is currently was a state of flux.

“If Reserve Bank of India does not effectively intervene in the affairs of this bank now, once again it will run into problems,” said CH Venkatachalam, General Secretary**, All India Bank Employees’ Association**, in a letter to RBI Governor Shaktikanta Das.

After LVB, Dhanlaxmi Bank Also Sees Shareholders Voting Out Newly Appointed CEO

Small, older-generation private sector lenders with a regional identity are seeing rough times.

K.T. Jagannathan 30 9 20

THE WIRE

All of a sudden, old generation private sector banks are hitting the national headlines. Tamilnad Mercantile Bank (TMB), Lakshmi Vilas Bank (LVB) and now Dhanlaxmi Bank – all these small private sector lenders of very long standing have come into focus for all wrong reasons.

TMB – a bank promoted by members of the Nadar community – occupied headlines a few days ago when the enforcement authorities multi-national Standard Chartered Bank was slapped with a penalty of Rs. 100 crore has for violation of the provisions of the FEMA (Foreign Exchange Management Act) in a case relating to unauthorised allocation of shares in the Tuticorin-headquartered TMB. Besides imposing the penalty on Standard Chartered Bank, the adjudicating authority under

FEMA also levied a fine of Rs 17 crore on TMB and Rs 35 crore on M.G.M. Maran, the former chairman of TMB.

Last week, the banking industry was stunned when shareholders threw out the resolutions relating to the appointment of its CEO and six others.

Now comes the news that the shareholders of Thrissur-based Dhanlaxmi Bank ousting its Managing Director and CEO, Sunil Gurbaxani, at the annual general meeting (AGM) of the bank on Wednesday. In the voting, 90.49% of the votes were polled against Gurbaxani. While voting out the resolution pertaining to his appointment, the shareholders, however, cleared all other resolutions at the meeting.

If what happened at LVB was unprecedented, the removal of an RBI-cleared CEO by the Dhanlaxmi Bank shareholders is equally significant in the annals of the Indian banking industry.

The general-secretary of the **All-India Bank Employees' Association** (AIBEA), C.H. Venkatachalam, has said that Gurbaxani must go now that the shareholders have voted against him. Somewhere along, Venkatachalam said, the bank was led into the wrong direction. If this was allowed to continue, it could eventually lead to mismanagement, he added. He reckoned that the shareholders had done the right thing in removing Gurbaxani.

"They (old private banks) aren't big. They can't grow beyond. For, they need capital to grow," Venkatachalam said, articulating the predicament of the old generation private banks which came into being in a different time period and with a specific purpose.

Implanting the western banking concepts on them was not correct, he felt, adding that one possible option could be to merge them with the nationalised banks.

Major shareholders of the bank are reportedly upset with the way Gurbaxani led Dhanlaxmi Bank, with apparently a distinct bias towards investors from the "North Indian lobby". Like many of the older generation private banks, Dhanlaxmi has an identity of its own, which is strongly rooted to its Kerala origins.

Shareholders somehow fear that this identity will get lost under the current management dispensation. Hence, they seem to have shown the door to Gurbaxani, who assumed office as CEO in February 2020. A veteran banker, he has 35 years of experience with the State Bank of Bikaner & Jaipur (now State Bank of India), and Axis Bank.

The Reserve Bank of India appears to have been appraised of matters. Only yesterday, on Tuesday, the Reserve Bank of India (RBI) appointed one of its officers on the board of Dhanlaxmi Bank for a period of two years from September 28. And earlier last week, the central bank asked the board of Dhanlaxmi Bank to terminate the services of P. Manikandan, chief general manager – an unprecedented step. The banking regulator was reportedly extremely unhappy with his interference in board matters.

Since June, the bank has seen a series of exits. Sajeev Krishnan, part-time chairman and independent director, was the first to go. Krishnan had joined the Kerala-headquartered bank in February 2018 for a three-year spell. He had around eight months left in his term. Two more resignations followed. The two were: K.N. Murali, independent director, and G. Venkatanarayanan, an additional director. Following their exit, the bank had appointed new board members. These include P.K. Vijayakumar, G. Rajagopalan Nair, G. Subramonia Iyer and Suseela Menon.

As of March 2020, prominent investors in the bank include: B. Ravindra Pillai (10%), Gopinathan C. K. (7.5%) and Kapilkumar Wadhawan (5%). Foreign portfolio investors hold 11.4%. This is according to a bank filing with the BSE.

The AIBEA, had, in fact, sought the RBI to intervene and carry out course correction. "In the beginning of this year, the top management has changed, and, in the recent months we are concerned to observe that perhaps the bank once again is heading in the wrong direction," it said in a recent letter to the RBI. "Instead of consolidating the gains and further strengthening the bank, we observe that efforts are on to change the business profile, which is bound to land the bank into difficulties," it added.

Small is beautiful, it is often said. But small is posing problems to these older generation private banks. Scale requires fresh capital. But the shareholders of the original kind don't have the capacity to bring in fresh funds to push growth in a highly competitive environment. Clearly, the big guys have an advantage here. So how to navigate without losing one's identity? That is easier said than done for these so-called old generation private banks.

LVB redux: Dhanlaxmi Bank shareholders oust MD and CEO Sunil Gurbaxani

After last week's ouster of directors, including the interim CEO and statutory auditors, by shareholders of Lakshmi Vilas Bank, a similar event plays out at Kerala-based Dhanlaxmi Bank.

Dinesh Unnikrishnan 30 9 2020

moneycontrol

Shareholders of Thrissur-based Dhanlaxmi Bank have ousted the Managing Director and CEO, Sunil Gurbaxani, at the annual general meeting (AGM) of the bank on Wednesday.

Over 90 percent of the votes were polled against Gurbaxani's appointment, according to people familiar with the development.

On Tuesday, Moneycontrol reported that a section of shareholders could vote against the CEO, Sunil Gurbaxani.

According to persons familiar with the development, major shareholders of the bank were unhappy with Gurbaxani's favourable approach to investors from the "North Indian lobby". These shareholders feared that the bank would lose its Kerala identity and, hence, wanted to oust Gurbaxani from the bank and bring in a more 'fit and proper' candidate.

Gurbaxani assumed office as CEO in February 2020. A veteran banker, he has 35 years of experience with the State Bank of Bikaner & Jaipur (now State Bank of India), and Axis Bank.

The shareholders' move is significant since the removal of an RBI-appointed CEO is rare and could lead to a management crisis.

Recently, bank employee union, **AIBEA**, had written to the RBI seeking the regulator's intervention in the bank. "We have already written to the RBI. The RBI should remove the CEO in the backdrop of voting results and appoint a more fit and proper person," said C H Venkatachalam, general secretary of **AIBEA.**

On Tuesday, the Reserve Bank of India (RBI) appointed one of its officers on the Board of Thrissur-based Dhanlaxmi Bank for a period of two years from September 28, the bank informed the stock exchanges.

The RBI has appointed D K Kashyap, General Manager, Reserve Bank of India, Bengaluru Regional Office, as Additional Director on the Board of the Bank, the lender said

As of March 2020, prominent investors in the bank include B Ravindra Pillai (10 percent), Gopinathan C K (7.5 percent) and Kapilkumar Wadhawan (5 percent). Foreign portfolio investors hold 11.4 percent.

Last week, the RBI had written to the bank's Board seeking termination of a key executive—one chief general Manager, P Manikandan.

It was an unprecedented move for the banking regulator to intervene in the matter of a CGM-level officer. But the regulator was upset about the non-adherence to the highest standards of corporate governance and Manikandan’s alleged involvement in board matters, according to persons familiar with development. The RBI had received complaints against this officer, they said.

The RBI was alerted by a series of exits from Dhanlaxmi’s Board since June. The first one was on June 29 when Sajeev Krishnan, part-time chairman and independent director, quit. Krishnan had joined the Kerala-headquartered bank in February 2018 for a three-year spell. He had around eight months left in his term.

The other two were KN Murali, independent director, and G Venkatanarayanan, an additional director. Both resigned with effect from June 29, 2020, before their terms came to an end. Murali joined the bank nearly a year and a half ago while Venkatanarayanan joined only a few months ago.

Following these exits, the bank had appointed new Board members. These include P K Vijayakumar, G Rajagopalan Nair, G Subramonia Iyer and Suseela Menon R, also as additional directors (Independent Category) to the Board.

Shareholders voted in favour of all other appointments at the AGM.

Last week, Lakshmi Vilas Bank shareholders ousted seven directors including the interim CEO and statutory auditors. Shareholders were unhappy about the way the Board and the management function and the deteriorating financial situation of the lender. Following this, the RBI appointed a three-member committee of directors to oversee the daily functions of the bank.

Dhanlaxmi Bank posted a 69 percent decline in net profit at Rs 6.09 crore for the first quarter ended June 2020 due to higher provisioning.

The bank had registered a net profit of Rs 19.84 crore during the same quarter of the previous fiscal.

On a sequential basis, however, its net profit in the quarter under review increased from Rs 2.6 crore in the March 2020 quarter.

Total income during April-June 2020 increased to Rs 278.62 crore from Rs 256.75 crore in the year-ago period, the lender said in a regulatory filing.

‘Put RBI under Prompt Corrective Action for effective sectoral control’

By IANS :Wed 30th September 2020

By Venkatachari Jagannathan

INDO ASIAN NEWS SERVICE

Chennai, Sep 30 (IANS) With bank after bank in private sector getting into problems, the latest being the Lakshmi Vilas Bank (LVB), the efficacy of Reserve Bank of India (RBI) as the sectoral regulator will soon be a question mark, said a top leader of a large bank union.

“The way things are coming out in private sector banks, RBI is not able to control or unwittingly becomes a party to it, its efficacy will soon be a question mark,” C.H. Venkatachalam, General Secretary, All India Bank Employees’ Association (AIBEA) told IANS.

“It is time the central government thinks of putting RBI under Prompt Corrective Action to really make an effective tool to control Banks,” he added.

Citing the happenings in the 93-year old LVB, Venkatachalam said its bad loans leapt from just about two per cent in 2017 to 25 per cent in 2020.

“The fact that the Bank was going in the wrong way could be visible even to a layman. How all these things and deteriorating health of the Bank was not seriously taken note of by RBI and its nominee Director,” Venkatachalam wondered.

He said, the RBI has access to everything going on in every Bank and under its very nose, many things are happening in many Banks.

“Not long ago, one RBI nominee director used to raise questions on the happenings in the bank. But later the RBI nominee directors remained silent,” R. Subramanian, former General Secretary of the Lakshmi Vilas Bank Officers’ Association and who retired from the bank as Senior Manager told IANS.

He has moved the Madras High Court to direct the Central government, RBI and the Securities and Exchange Board of India (SEBI) to suspend LVB’s board and appoint an administrator.

“Strangely, the nominees of the RBI on the LVB Board have not raised any concern or red flag despite the happenings in the bank,” Subramanian, 67, told IANS.

In his petition, Subramanian, who was the General Secretary of the Lakshmi Vilas Bank Officers’ Association, and retired from the bank in 2013 as a senior manager, said that he had sent a representation to the Centre, and the RBI, “bringing to their notice the mismanagement and misleading disclosures to the general public for taking appropriate action but these have not been considered”.

He contended that the mismanagement has resulted in gross non-performing assets (NPA) leaping from 2.67 per cent in 2017 to 15.30 per cent in 2019 and stretching to 25.39 per cent in March 2020.

“Any such increase in gross NPA could not be justified as a common occurrence in the banking industry. This evidences quick mortality of advances and the options of the bank made against the guidelines of the RBI and the SEBI,” Subramanian argued.

“I submit that the total deposits in the respondent bank, as on March 31, 2020, are Rs 21,443 crore. But there is no safety for the deposits made by general public as per the information available in the public domain and qualified statements of the statutory auditors of the bank in the balance sheet,” he said.

Subramanian said the unions have brought the happenings in the bank to RBI earlier, but nothing happened.

In his petition Subramanian said the loss to the bank is due to bad advances extended Religare, Star agri, products, Talwalker,ACox and Kings, Coffee Day amounting to about Rs 1,200 crores violating corporate governance.

LVB had extended big advances to Religare, Jet Airways Group, Cox and Kings, Nirav Modi Group, Coffee Day (relate to the questionable agri loans extended violating the established norms and RBI guidelines) and others to the tune of about Rs 2,000 crore, he said.

Subramanian also said in his petition that the bank did not curtail its expenditure.

“RBI did not know how Nirav Modi could play with the Banks.A RBI did not know how Vijay Mallya was playing with the banks. RBI did not know the affairs of YES Bank. RBI did not notice anything wrong when Dhanlaxmi Bank was not doing well.A RBI did not notice anything wrong when Global Trust Bank was doing so many unscrupulous things and which were brought to their notice by RBI auditors themselves,” Venkatachalam said.

“**In the same way, RBI does not appear to be knowing what is happening in LVB. If they really did not know what was happening in all these Banks, then it is not the RBI it was meant to be. If they knew all these things and still did not take drastic and timely steps, then RBI has no meaning,” Venkatachalam added.**

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AIBEA/GS/2020/192 **30-9-2020**

Shri Shaktikanta Das,
Governor,
Reserve Bank of India,
Mumbai.

Dear Sir,

Reg: Affairs of Dhanlaxmi Bank Ltd.

This is in continuation of our letter addressed to you on 26th instant regarding the affairs of Dhanlaxmi Bank Ltd.

We are happy to observe that the matter has reached you and received your attention also. We thank you for the same.

We take note that one more RBI Nominee, Mr D K Kashyap, General Manager of Bangalore office has been appointed as Director on the Board of Dhanlaxmi Bank on 28th instant for a period of 2 years. We hope that this will strengthen the effective monitoring and control by RBI on the affairs of the Bank in the coming period ahead.

We look forward to the same as Dhanlaxmi Bank cannot afford any repeat of what happened during 2008-2012 during the period of Mr. Amitabh Chaturvedi. Our earlier letter to you was only on this apprehension that the present Managing Director Mr. Sunil Gurbuxani is also moving in the same direction.

As though confirming our apprehension, we learn that today in the Annual General Meeting of Dhanlaxmi Bank, the Resolution proposing to appointment Mr. Gurbuxani as MD & CEO of the Bank was voted against, 9.5% in favour and 90.5% against it while all other Directors have been approved with 99% in favour.

Thus the shareholders have overwhelmingly rejected Mr Gurbuxani to continue in office or to run the Bank any further.

We strongly suggest and fervently hope that while appointing a new Managing Director and CEO, the RBI would keep the entire background and context in view and the new MD & CEO would be someone who is familiar with this Bank, its customers, its Depositors, its shareholders and its nine decades of existence.

Let there be no more experiments with this Bank.

Thanking you,

Yours faithfully,

C.H.VENKATACHALAM
GENERAL SECRETARY

Centre's fiscal deficit may skyrocket to 9% of GDP this year; these twin issues weigh on govt's coffers

Samrat Sharma | September 29, 2020

THE FINANCIAL EXPRESS

While the budgeted fiscal deficit in the year was Rs 8 lakh crore, an additional deficit of Rs 9.8 lakh crore is projected due to various shortfalls and expenditure

Given the fact that states have been at the forefront of the control and fight against the pandemic, their fiscal deficit is projected to increase by as much as 1.6% over the budget estimate of 2.8% to 4.4% of the country's GDP

India's fiscal deficit may touch 9 per cent of GDP in the current fiscal year 2020-21, on the back of the twin issues of revenue loss and higher spending due to the pandemic. The fiscal deficit in the current year is estimated to be Rs 17.8 lakh crore, according to a report by Care Ratings. While the budgeted fiscal deficit in the year was Rs 8 lakh crore, an additional deficit of Rs 9.8 lakh crore is projected due to various shortfalls and expenditure. It is estimated that the government will bear a burden of Rs 5.9 lakh crore as a shortfall in tax revenue and Rs 3.8 lakh crore as an additional expenditure.

Given the fact that states have been at the forefront of the control and fight against the pandemic, their fiscal deficit is projected to increase by as much as 1.6 per cent over the budget estimate of 2.8 per cent to 4.4 per cent of the country's GDP. The states have the onus to effectively implement restrictions to contain the spread of coronavirus while keeping the wheels of the economy moving.

Taken together, the combined fiscal deficit in the current year could increase by as much as 7 per cent over the budget estimate. Care Ratings has expected the combined fiscal deficit to be around 13 per cent, that too, when the Rs 97,000 cr of direct borrowing by states is not being treated as fiscal deficit.

Meanwhile, the states and UTs had presented their budgets for 2020-21 before the coronavirus pandemic spread in the country. Therefore, the projections made were based on normal conditions and positive economic growth during the year. However, given that economic activity is unlikely to revert to pre-lockdown levels in the current financial year, there would be a divergence in revenues and expenditure of states from what was budgeted.

Q2 results: Banks to see muted growth, signs of some stress

Surabhi Mumbai | September 29, 2020

THE HINDU BusinessLine

Temporary reprieve with SC adjourning loan moratorium hearing to Oct 5

Banks seem to have got a partial reprieve for now, with the Supreme Court adjourning the hearing on the loan moratorium to October 5 — as an unfavourable verdict could have impacted their operating profits and Q2 results.

Most companies are working on their results for the quarter ended September 30, 2020, and the end of the loan moratorium and debt restructuring is expected to have some impact even as lending growth has remained muted.

Aditya Acharekar, Associate Director, CARE Ratings, said: "Depending on the Supreme Court verdict, banks may have to take a hit but it would depend on how it gets implemented."

The Centre has indicated to the SC that it is at an advanced stage in reaching a decision on the interest in the loan moratorium period.

Analysts had said an unfavourable verdict would have impacted banks and financial institutions by about Rs.8,000 crore.

‘Low cumulative burden’

“Waiving interest (on interest) during moratorium period (if Supreme Court outcome is unfavourable) will barely lead to a cumulative burden of Rs.7,500 crore to Rs.8,000 crore for the industry — including about Rs.2,000 crore for private banks and small finance banks, about Rs.2,000 crore for public sector banks and Rs.3,500 crore for NBFCs and housing finance companies,” ICICI Securities said in a recent report.

“This would mean a drag of a meagre seven basis points on RoAs and an impact of less than 4 per cent of operating profit of 2019-20,” it added.

“Growth will continue to be subdued as banks will focus on collections and Covid-related uncertainties still remain. With capital buffers not very high, public sector banks will have to conserve capital. There will be some stress with the moratorium ending and restructuring allowed but it may not be visible right away in NPA numbers, although SMA numbers may show a rise. Indications are that 5-7 per cent of the portfolio would go for restructuring,” added Acharekar.

A report by BNP Paribas noted that the restructured book for banks should not be a concern and could be in mid-to-low single digits as a percentage of total advances for large private banks.

Faced with continued economic uncertainty, it is expected that many banks will also continue to provide for Covid-19 related provisions in the second quarter as well, keeping provisions further elevated.

RBI excludes 6 PSBs from Second Schedule of RBI Act

A bank mentioned in the Second Schedule of the Reserve Bank of India Act is known as 'Scheduled Commercial Bank'. These six banks merged with other public sector banks (PSBs) with effect from April 1.

PTI/ MONEY CONTROL, 30 9 2020

The RBI has excluded six public sector banks, including OBC and Allahabad Bank, from the Second Schedule of the RBI Act following their merger with other banks. The six banks are Syndicate Bank, Oriental Bank of Commerce (OBC), United Bank of India, Andhra Bank, Corporation Bank, and Allahabad Bank.

"We advise that Syndicate Bank has been excluded from the Second Schedule to the RBI Act, 1934 with effect from April 01, 2020 since it has ceased to carry on banking business with effect from April 01, 2020 vide Notification of March 27 which is published in the Gazette of India…dated September 26 October 02, 2020," RBI said in a notification on Wednesday. It has issued similar notifications regarding the other five state-owned banks.

A bank mentioned in the Second Schedule of the Reserve Bank of India Act is known as 'Scheduled Commercial Bank'. These six banks merged with other public sector banks (PSBs) with effect from April 1.

OBC and United Bank of India merged into Punjab National Bank; Syndicate Bank into Canara Bank; Andhra Bank and Corporation Bank into Union Bank of India; and Allahabad Bank into Indian Bank. After the consolidation , there are now seven large PSBs, and five smaller ones. After the consolidation , there are now seven large PSBs, and five smaller ones.

There were as many as 27 PSBs in 2017. The total number of PSBs in the country has now come down to 12.

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