ALL INDIA BANK OFFICERS' CONFEDERATION

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

Respected Sir,

SAVE THE PUBLIC SECTOR BANKS
THE SAVIOURS AND LIFE LINE OF INDIAN ECONOMY

It is not our intention to highlight the role of Public Sector Banks (PSBs) in nation building and its continued performance despite various odds as you were the controller who led the PSBs by actively involving yourself in every sphere of activities undertaken by the PSBs.

Right from deciding the very location of the branch to lending rate, methods to arrive at the deposit rate, classification of advances, concessions to be extended, currency management, expansion in presence & business, appointment of directors, constituting the board committees, selecting Chief executives to lead the banks, identifying the inner talents to lead the bank through promotions to the top level, deciding even the nature of frauds, monitoring the growth and suggesting the improvement through annual audits and even to decide profit and dividend to be declared through the various provisioning norms continuously & periodically are being under the constant control of RBI only.

You will also appreciate that as Regulator it was RBI only which devised and permitted the system of CDR to postpone the NPA declaration, forceful additional lending in the name of CAP and JLF else the NPA would have been crystalised much earlier with lesser liabilities spread over a longer period of time. Sale to ARC was yet another form of back door appropriations of the assets of the Banks allowed to be committed on the Banking system.

Above all, even the micro level administration of the Banks is in the constant scrutiny through the representatives of RBI at the board levels too. Banks are also scrupulously following all the guidelines of RBI throughout and many a times, many banks have paid hefty penalties for the non compliance of the RBI stipulated norms.

It is no secret and rather your good self is always advocating that the business of banking involves inherent risk and bankers always take calculated risks as the very nature of business itself is aimed to deal with the high risk business projects with projections to be achieved in future.

After the introduction of prudential norms for accounting as a part of financial sector reforms in the banking industry in the beginning of 1990s, banks were asked to classify their assets as performing or non-performing, based on the Basel-I norms which resulted in sudden emergence of the concept of non-performing assets in the PSBs.

Parallely, the PSBs were also asked to finance long term infrastructure projects like roads, power projects etc., which has a long gestation period and the PSBs didn't have the necessary expertise to undertake such projects. All over the world these projects are financed either by the Term Lending Institutions and/or Capital Ventures till they become viable/Bankable proposals. Due to the Government pressure, PSBs financed such projects while the private sector shied away from them as they had foreseen the danger.

Due to the policy paralysis over a long period and also due to the economic slowdown as an after effect of financial crisis in the West, PSBs are burdened with huge amount of NPAs. Many banks had taken forced exposure beyond their ability to withstand the risk and there were industrial groups which had taken advantage of the situation by inflating the project costs and diverting the money for other purposes.

Many of the industrial groups are willful defaulters and the main stake holder i.e. Government of India is wary of taking any stern action against the wilful defaulters putting the hard earned money of crores and crores of Indians into jeopardy.

Sir, as your good self has acknowledged on many occasions that the work force are the growth partners and it is more so with the officers as the supervisory cadre became the more needed and responsible cadre among the workforce, thanks to your timely step of augmenting the Digitalisation in the banking sector. As a responsible organisation representing more than 3,00,000 officers working in the Banking Industry in India, it is our endeavour always to knock on the doors of anyone who can help in creating a semblance of order in the mess that has been created in Public Sector Banking.

In this background, the RBI has been permitting the banks to restructure the borrowal accounts which were in stress and this practice has given reasonable amount of breath to PSBs.

But now, from the market news and the media reports, we learnt that in the middle of last calendar year RBI has carried out the Asset Quality Review (AQR) in all the PSBs and top Private sector banks to cleanse the balance sheet of the banks. The present guidelines on asset classification and provisioning have not been altered excepting withdrawing the dispensation available for restructuring since 1st April, 2015. However with stricter interpretations, it is widely covered in the news that RBI has advised the banks to classify about 150 accounts as NPA, including some restructured accounts.

Our serious apprehension which is subscribed by the market news too is that majority of the Public Sector and few Private sector banks will be in red on account of Asset Quality Review by RBI.

We are sure that your good self will appreciate that the current scenario of the PSBs i.e., potentially to be turned to red is mainly on account of soft stance taken by the RBI and the Govt to face the downward trend in economy since 2008 by allowing restructuring coupled with the lack of legal reforms, lack of growth in economy, delay in administrative and Regulatory permissions, in some of the cases the decision of the court, diversion in some cases etc.

If the RBI, all of a sudden wants to set right everything over night, it would be certainly at a great risk of destabilising the banking system in general and PSBs in particular.

It's repercussions will be echoed in:

1. downgrading of ratings of banks,
2. Breaching of minimum Capital Adequacy Ratio besides poor profit.
3. Naturally affecting the lending capacity of the banks including that to priority sector.
4. While banks cannot raise capital in the market, the requirement of fresh capital for this exercise cannot be met by the Government also adequately.
5. And all above factors will lead to down grading of Sovereign rating of our national Economy.

Sir, your good self would be in resonance with our following thoughts that:

1. Any financial sector reforms implemented necessarily should have adequate legal reforms to enable the banks to recover the loans granted.
2. Implementing world standard reforms in banking should have world standard legal framework to support the banks.

3. The profit of the RBI is above Rs 50,000 crore whereas all the PSBs put together have a profit of about Rs 37000 crs. and CRR alone contributes substantial profit of RBI at the cost of commercial banks.
4. The AQR is a major step taken by RBI after implementation of Narasimham Committee in 1992. As the RBI took over a period of 12 years to decide on its implementation, Banks should, therefore, be given a fair time, say 5 years, for the ramifications of the process.

While we appreciate the steps initiated by the RBI at this juncture to cleanse the Balance sheet of the PSBs which would certainly place the Indian Banks and the Banking system in an enviable situation, we also wish to submit few suggestions which would offer the PSBs some breathing time to place themselves in a right orbit to further accelerate the reforms,

1. Basically, to ensure that the process of reforms is smooth and reaches a logical end, corresponding adequate legal reforms be implemented quickly.
2. The existing restructured Standard accounts may be downgraded as NPA, if satisfactory performance is not evidenced from the current date.
3. The Bankers may be allowed a longer period of time for making provisions for the new NPAs.
4. Bankers may be allowed to provide for the existing NPA accounts on account of failed restructuring from the current date only.
5. The requirement of additional provisions for accounts already classified by the bankers as NPA should not be insisted.
6. Unrealised interest pertaining to the current year only in accounts identified as NPA should be reversed.
7. Since the present IRAC norms give rise to interpretational issues, on technical grounds, it is suggested that in the case of SDR, 5:25 Scheme, Bankers may be allowed to get prior clearance from RBI before implementation, so that the inspectors cannot make those accounts NPA later on.
8. The process of cleaning the Bank balance sheet requires substantial amount of provisions. The entire provision made by the Banks for NPA accounts as per RBI regulations should be allowed for deduction under Income Tax act.
9. Till this process is over, Banks should not be allowed to declare dividend.
10. Corresponding to the reforms in the Banking, there should be a clear disincentive for defaulting borrowers (may be by forcing the Government to take steps) like,

    a. To ensure personal guarantee of promoter directors in all cases of NPA accounts and particularly in those cases where these guarantees were available and withdrawn later on.
    b. Disqualifying promoters, directors and guarantors from contesting election, occupying Official post in various Public/Private Bodies, licensing for new Ventures, etc.
    c. Lenders should be permitted to trace and enforce the assets created by borrowers by diversifying funds.
    d. Declaring Willful Default a criminal offence, immediate filing of FIR against the promoters/directors in such cases and barring the promoters from holding / contesting for public office.
    e. Stop financing to entities which have any promoter or director who were earlier part of the entities which have been declared as wilful defaulter or even disqualifying them from becoming promoters and Directors.
    f. Stern recovery measures including attachment of properties of the promoters and directors who had diverted the funds.

Sir, your immediate intervention in phasing the implementation of the recommendation appeared in the media on the AQR will save the PSBs and ensure its continued survival and contribution in Nation building.

Thanking you,

Yours faithfully,

For All India Bank Officers' Confederation

Gen. Secretary,

For All India State Bank Officers' Federation

General Secretary

For All India Punjab National Bank Officers' Association

General Secretary

For Canara Bank Officers' Association

General Secretary

For The Federation of Bank of India Officers' Associations

Gen. Secretary,

For Indian Overseas Bank Officers' Association

General Secretary

For All India Indian Bank Officers' Association

General Secretary

For Associate Banks' Officers' Association

General Secretary

For All India Union Bank Officers' Federation

General Secretary

For Syndicate Bank Officers' Association

General Secretary

For, All India Dena Bank Officers' Federation

General Secretary

For All India Vijaya Bank Officers' Association

General Secretary

For All India Central Bank Officers' Federation

General Secretary

For All India Allahabad Bank Officers' Association

Deb Malya Mitra

General Secretary

For All India UCO Bank Officers' Federation

General Secretary

For Corporation Bank Officers' Organisation

General Secretary

For All India Andhra Bank Officers' Federation

General Secretary

For United Bank Officers' Association

General Secretary

For All India Punjab & Sind Bank Officers' Association

General Secretary

For All India Bank of Baroda Officers' Federation

General Secretary

For Federal Bank Officers' Association

General Secretary

For The Lakshmi Vilas Bank Officers' Association

General Secretary

For South Indian Bank Officers' Association

General Secretary

For All India Regional Rural Bank Officers' Federation

General Secretary

<u>CC:</u>

1. **The Secretary,**
   Department of Financial Services, Ministry of Finance,
   <u>New Delhi.</u>
2. **The Chairman,**
   Indian Banks' Association,
   <u>Mumbai.</u>