

KHURDIA JAIN & CO.

CHARTERED ACCOUNTANTS

BANKING SNIPPETS FOR AUGUST 2018

1. **RBI RAISES REPO RATE BY 25 BASIS POINTS:** The Reserve bank of India has raised the repo rate by 25 basis points (bps) to 6.5%. The bank lending rates may be hiked because of this in future. This is the second hike by RBI during this financial year. Loan rates have been going up for the past few months as banks are looking to protect their margins. With deposits growing up steadily there is a need for banks to increase the deposit interest rates as well.
2. **RBI LENS ON 200 BAD-LOAN ACCOUNTS:** The Reserve bank of India has started examining about 200 bad-loan accounts from as far as 2011 onwards as part of its annual inspection of bank books to rule out any nasty surprises in bankruptcy court or subsequent to debt resolution. These include the accounts of Videocon, Essar Steel, ABG Shipyard, Bhushan Steel etc. RBI is looking at repayment history, classifications, provisions and debt restructuring among other things to ensure that all procedures were correctly followed.
3. **10 PSU BANKS WILL BE HEADLESS BY THIS MONTH**
END: Seven Public Sector banks are already functioning without their Chiefs and the term of three more bank CEOs will end this month end, making it 10 banks without CEOs. This has created a huge void in state-run banks, that too at this time when most of the banks are grappling with bad loans and are in a bad shape.
4. **ICICI BANK WARNS OF RISK TO REPUTATION IN REPORT TO**
SEC: ICICI bank has warned its domestic and international shareholders that the bank faces reputation risk and regulatory action. It has highlighted the on-going investigations into the allegations relating to its CEO Ms Chanda Kochar as risk factor. The bank has filed its Annual Report both for Indian and international investors. The balance sheet was filed with the Securities Exchange Commission (SEC) to comply with the listing requirements for bank's American depository receipts (ADRs).

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5. **WRONG REPORTING HIDES SMALL BUSINESS LOANS WORTH Rs 10 LAKH CRORE:** According to a report by Boston Consulting Group (BCG) on behalf of IBA and FICCI, the size of Micro Small & Medium Enterprises (MSME) market is around 25 lakh crore. The report splits the borrowings by MSMEs into two categories—Rs 15 lakh crore availed in the name of the business entity and Rs 10 lakh crore in the name of the proprietor. This portion of Rs 10 lakh crore is mis-reported as personal advances made to their proprietors. These loans which are mostly financed by MNC Banks, Private Sector Banks and NBFC's are sometimes backed by gold and property or sometimes clean loans as well depending on the credit history of the borrower. Most of the loans are availed in the name of the proprietor and family and then channelled to support the business needs.

6. **BANKS SERVING SUMMONS TO DEFAULTERS THROUGH WhatsApp AND EMAILS:** Banks are using WhatsApp and Email to pin down those defaulters who slip through the banks grip when more traditional mode of correspondence is used. Banks are issuing court summons through WhatsApp and Email. This digital means of correspondence is being followed after a judgement earlier this year. A letter through post can get unduly delayed and addresses keep on changing but phone numbers and Email addresses can remain constant, making these digital modes of correspondence handier to the lenders. HDFC Bank has already issued 214 court summonses through WhatsApp and Email.

7. **RBI ASKS RATING AGENCIES TO SCAN COMPANIES' BANK ACCOUNT DETAILS:** The Reserve Bank of India has directed rating firms to scan bank account details (capturing the flow of funds in and out of the Company) in assessing its capacity or ability to repay loans. There would be resistance from companies as most of the companies will be reluctant to part with such information. Such information is only shared with external agencies only when the banks or the regulatory body order a forensic audit. A rating agency, when it tracks such data on money flows could be in a position to identify possible diversion of funds through subsidiary shell companies.

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- 8. BANKS WILL HAVE TO STOP LENDING TO INFRA PROJECTS:** State Bank of India has said that banks will have to stop lending to infrastructure projects, especially to Power sector because of the bad experiences of the past as most of the loans given in the last decade have turned bad. Due to the changes in Non-Performing Assets recognition after February 12, 2018 RBI circular, wherein RBI had given August 27TH as the deadline, as many as 30 power projects with accumulative exposure of Rs. 1.7 trillion (Rs 1.7 lakh crore) are now facing bankruptcy proceedings. If the banks fail to resolve the issues within the next 15 days, then they will have to be sent to National Company Law Tribunal (NCLT).
- 9. IBA ASKS BANKS TO GET CYBER SECURITY INSURANCE:** The Indian Banks Association (IBA) has asked member banks to buy Cyber Insurance covers in the wake of several incidents of digital attacks on banks. Such a policy has turned into a basic need for the banks now. While large banks have cyber insurance covers ranging from Rs. 350 to Rs. 500 crore, many of the smaller banks have not yet opted for the same. Usually these smaller banks have only the Banker's Blanket Policy which does not cover cyber heists.
- 10. COSMOS BANK'S SERVER HACKED, Rs.94 CRORE SIPHONED OFF IN 2 DAYS:** Hackers managed to siphon off over Rs.94 crore through a malware attack on the server of Pune- based Cosmos Bank by cloning thousands of bank's ATM cards over a period of two days. In two days around 91 crores were withdrawn from various ATMs in 28 countries and another Rs.2.5 crore were taken out in India.
- 11. BANKS SHARE IN MSME FINANCING REDUCING OVER THE YEARS:** The share of credit financed by banks to Micro, Small & Medium Enterprises (MSMEs) has declined since 2016. This share is being taken up by Non-Banking Financial Companies (NBFCs). The share of credit financed by NBFCs to MSMEs has nearly doubled to 10%. NBFCs with their rigorous marketing and increased risk taking capacity will continue to eat the market share from banks in future as well.

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12. BANKS TO COME OUT OF PCA FRAMEWORK BY THIS YEAR

END: Financial Services Secretary Mr. Rajiv Kumar has expressed that the banks would come out of Prompt Corrective Action (PCA) framework by the end of this fiscal. As many as 11 banks are under PCA. Of these, Dena Bank and Allahabad Bank are facing restriction on expansion of business. Noting that Public Sector banks are growth engines, Mr. Kumar said that Banks have made a recovery of Rs 36,551 crores of bad loans during the first quarter, registering a growth of 49% over the last fiscal.

13. SBI POSTS Rs. 4,876 CRORE LOSS IN THE FIRST QUARTER OF FY'18-19:

State Bank of India has reported net loss of Rs. 4,876 crore for the quarter ended June 2018. This is due to fresh slippage of Rs. 26,249 crore in the Non-Performing Asset (NPA) category for which the bank had to keep provisions. The profits were also hit by large depreciation in the value of its bond portfolio following an increase in interest rates.

14. PNB IN TALKS WITH GOVERNMENT DEPARTMENTS TO SELL

ITS HQ: Punjab National Bank (PNB) is in negotiation with a few of government departments, including Income tax and central excise, to sell its headquarters situated at Bhikaji Cama Place in New Delhi. The bank is going for second round of valuation of the property due to high demand. The bank expects to raise nearly Rs. 700-800 crore from the sale of its earlier head office in New Delhi. The bank has set a target of Rs.8,600 crore from sale of its non-core assets in FY 18-19.

15. RBI MAY SOON DO AWAY WITH MCLR: The Reserve Bank of India, in its annual report of 2017-18 has indicated that it would review the Marginal Cost of Lending Rate (MCLR) guidelines. The review is imminent because MCLR system has not reflected the changes in interest rates. And moreover, World-wide the bank rates have moved to an external benchmark which leads to uniform pricing. From April 2018 onwards RBI has asked all banks to link all old loan interest rates to MCLR, which most of the banks are yet to implement.

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- 16. ICICI BANK REPORTS FIRST QUARTER LOSS:** ICICI Bank reported a historic loss in the first quarter ended June 2018 due to the rise in its provisions. The bank reported a loss of Rs.120 crore as against a profit of Rs 2,049 crore during the same period last year. The provisions were more than doubled to 5,971 crore from 2,609 crore last year.