

KHURDIA JAIN & CO.

CHARTERED ACCOUNTANTS

BANKING SNIPPETS FOR MARCH 2018

1. **RBI BARS BANKS FROM ISSUING LOUs:** The Reserve Bank of India has discontinued issuance of Letters of Undertaking (LOUs) and Letters of Comfort (LOCs) with immediate effect. This is an attempt to prevent further fraudulent transactions. The immediate effect of this would be it will increase the import cost and the profitable business avenue of foreign Branches of Indian Banks would close down. And since the importers will now have to buy dollars from market, the rupee could come under pressure.
2. **FINANCE MINISTRY ORDERS PUBLIC SECTOR BANKS TO SCAN NPAs OVER Rs. 50 CRORE FOR FRAUD:** Stung by the recent Punjab National Bank fraud, the Finance Ministry on 27th February has directed all Public Sector Banks (PSBs) to scan their Non-Performing Asset (NPA) accounts worth more than Rs. 50 crore for possible fraud and refer any such fraud cases to Central Bureau of Investigation (CBI). The ministry has given 15 days deadline to take "pre-emptive action" to identify the gaps and brace up for increasing operational and technical risks.
3. **RBI ASKS BANKS FOR DETAILS OF LOUs AS FAR BACK AS 2011:** The Reserve Bank of India has asked all banks to provide details of LOUs (Letter of Undertaking) issued by them as far back from 2011 onwards including outstanding as on date and whether the banks had pre-approved credit limits or kept enough cash margins before issuing the LOUs. RBI has given a deadline of one week to respond.
4. **LOW-COST HOUSING LOANS FACE HIGHER RISK OF DEFAULTS:** Recent report on low-cost Housing loans has revealed that there are elevated risks in the low-cost housing loan segment because of the higher propensity among the borrowers to default. As against the overall 1.96 % of home loans which have become NPA, the contribution of loans under Rs. 25 lakhs was 2.33% and in case of home loans under Rs. 10 lakhs it is 4%.

703, Ashok Heights, Nikalas Wadi Road, Near Bhuta School, Opp. Saraswati Tower, Old Nagardas Cross Lane, Andheri (East), Mumbai-400 069 Tel.:26842700 /01 / 02

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5. **PSU BANKS NEED GOVERNMENT APPROVAL FOR ISSUING AT1 BONDS:** The government has instructed Public Sector Banks to take its permission before floating Additional Tier-1 bonds (AT1 Bonds), which have turned out to be loss making for bankers and the government. AT1 bonds are perpetual bonds without fixed maturity. The decision was taken after the government had to step in for a troubled PSU bank that could not repay its AT1 bond investors because of a regulatory restriction. AT1 Bond has a clause that if a bank is loss making, it cannot pay AT1 coupon and then the bank would default on interest payments purely on regulatory reasons.

6. **PEER-2-PEER (P2P) LENDING PLATFORMS ARE GAINING POPULARITY IN SMALL CITIES:** According to a social impact report by Fair cent, the tech driven approach of P2P lending has been empowering Indian Businesses in Tier-2 and Tier-3 cities. In October last year RBI published guidelines to regularise P2P lending platforms as Non-Banking Financial Companies (NBFC). These P2P firms either operate as NBFC, intermediaries for banks/NBFCs or operate as P2P direct lenders to small businesses and these are becoming more popular in Tier-2 and Tier-3 cities as they use a wide variety of non-traditional data to evaluate credit risk.

7. **PSBs PLAN TIGHTER LENDING NORMS FOR CORPORATE LOANS ABOVE Rs 250 CRORE:** Public Sector Banks (PSBs) will discourage multiple banking arrangements for companies with exposure of more than 250 crore in the banking system and will move all such loans under the consortium of banks for better monitoring. Under consortium arrangement there will be more discipline and effective monitoring.

8. **GOVERNMENT SHUTS DOWN 35 OVERSEAS BRANCHES OF PSU BANKS:** The government has ordered shutting down 35 overseas branches of Indian Public Sector banks (PSBs) over viability and profitability. 69 more such international branches are being considered for closure. The Government is looking to consolidate PSBs overseas operations as it is planning to close all non-viable overseas operations for cost efficiency and synergy.

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- 9. SBI CLOSES 41.16 LAKH SAVINGS BANK ACCOUNTS:** State Bank of India has closed as many as 41.16 lakh savings bank accounts from April 2017 to January 2018 for not maintaining the average monthly balance. In April'17 SBI had re-introduced penal charges on non-maintenance of average monthly balance. Later on in October'17 it had revised down the charges to some extent. SBI has 41 crore savings bank accounts of which 16 crores are under Pradhan Mantri Jan-Dhan Yojana, pensioners, minors and social security benefit holders which are exempted from the penalty for not maintaining minimum balance
- 10. GOVERNMENT TO REVIEW BAN ON SALE OF GUARANTOR'S PERSONAL ASSETS UNDER INSOLVENCY LAW:** National Company Law Tribunal (NCLT) had recently ruled that the personal assets of guarantors cannot be seized during moratorium on the disposal of assets that is in place, while the insolvency process is underway in case of corporate debts. Now the government will review the issue of the bar on liquidating the assets of directors who have given their personal guarantees for corporate loans.
- 11. PUNJAB NATIONAL BANK SEEKS PROVISIONING RELIEF FROM RBI FOR Rs. 13,000 CRORE LOSSES:** Punjab National Bank has requested RBI to allow it to provide for losses in the Rs. 13,000 crore Nirav Modi- Gitanjali Gems scam over four quarters instead of at one go as it expects to recover 40% of the defaulted loan amount. Further, bearing full provisioning loss of over Rs. 13,000 crore in March 2018 quarter alone could wipe out more than 25% of PNB's net worth of Rs. 48,000 crore.
- 12. IDBI BANK WITHDRAWS SANCTIONED LIMITS TO SEVERAL INDIAN COMPANIES:** IDBI Bank has suddenly withdrawn and reduced the sanctioned credit limits to several of its corporate customers without stating any valid reasons. Since the bank has cut credit facilities like Cash credit, vendor financing etc., the affected companies are facing lot of problems in their working capital cycle. Corporates affected by this sudden and unexpected move have come together and approached the Finance Ministry seeking reprieve.

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13. HOME BUYERS TO GET FINANCIAL CREDITOR TAG: A 14

member panel set up to review the Insolvency & Bankruptcy Code (IBC) is likely to recommend an amendment by which all home buyers will get a status of "Creditor". This means that the home buyer will get the status of a financial creditor like banks and accorded similar benefits, in case their builder goes through insolvency proceedings before giving rightful possession of the flats. Here Home buyers will be third in the preference of order to get the proceeds—after the clearance of the cost of resolution and workers' dues.

14. ARUNDHATI BHATTACHARYA AMONG THE NAMES WHO COULD LEAD BBB:

The government has initiated the process of selecting the next Chairman for the Banks Board Bureau (BBB). State Bank of India's former Chairperson Mrs. Arundhati Bhattacharya, is considered to be one of the frontrunners for the post. But the government officials said they are open to get someone from the private sector also to head the advisory body. The government is not inclined to expand the role of the BBB and is of the opinion that the advisory body should continue to make holistic recommendations.

15. WORRIED BY IDBI BANK'S POOR HEALTH, RBI WRITES TO FINANCE MINISTRY:

The Reserve Bank of India has written to the Finance Ministry expressing concerns over the poor financial position of IDBI Bank and has called on the government to take remedial steps. The letter points out several shortcomings, including the recognition of non-performing assets. RBI says that it has found out during their inspection that the bank's mechanism for identifying bad loans is also deficient. And having said that, RBI also adds that the Bank's Non-performing assets could be higher than what has been reported so far.

16. 25% OVERSEAS BRANCHES OF PUBLIC SECTOR BANKS REPORTED LOSSES IN FY 17:

The Union government has said that 25% (one fourth of all foreign branches of PSBs) have reported losses last financial year. As per the data available out of the 159 branches of PSBs operating overseas, 41 branches have incurred losses.

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17. GUARANTEES OFFERED BY BANKS OUTSIDE INDIA TOUCH

1.95 LAKH CRORE: The Non-Fund exposure (Guarantees, LOUs, and Foreign Exchange Contracts) of banks which fall under the category of Contingent liability has drawn ample attention after the Nirav Modi LOU Scam in PNB. As per the RBI data, out of the total contingent liabilities, Guarantees outside India by all scheduled commercial banks have grown at an annual growth rate of 21% since 2004-05. The total guarantees outside India stood at 1.95 lakh crore in 2016-17.

18. IBC PANEL EASES INSOLVENCY RULES FOR MSMEs:

The Insolvency & Bankruptcy Code (IBC) review panel has called for sweeping changes in the law aimed at easing insolvency rules for Micro Small and Medium Enterprises (MSMEs). The committee has proposed that the promoters of MSMEs who are not termed as wilful defaulters should be allowed to bid for the assets of their companies during insolvency process.

19. GOVERNMENT ASKS ALL BANKS TO "NAME & SHAME" WILFUL

DEFAULTERS: Tightening the noose around "WILFUL DEFAULTERS", the government has asked all banks to "name & shame" such borrowers by publishing their photographs and other details in newspapers. The number of wilful defaulters rose to 9,063 at the end of December 2017. Now Banks will formulate a policy with the approval of their Board of Directors which clearly sets out the criteria for publication of photographs of wilful defaulters.

20. PNB APPROVES PAYMENT TO 7 BANKS OVER FRAUDULENT

LOUs: Punjab National bank has announced that it will make payments of around Rs. 6,500 crore to 7 banks against the Letter of Undertaking (LOUs), and Foreign Letters of Credit (FLCs) it issued in the fraud allegedly committed by jewellers Nirav Modi and Mehul Choksi and their companies. Around 350 such LOUs and FLCs are maturing on 31ST March 2018.