ALL INDIA BANK PENSIONERS' & RETIREES' CONFEDERATION
(A.I.B.P.A.R.C.)
C/O BANK OF INDIA OFFICERS' ASSOCIATION
(EASTERN INDIA BRANCHES)
BANK OF INDIA, KOLKATA MAIN BRANCH
23A, NETAJI SUBHAS ROAD, KOLKATA – 700 001
Mobile : 9830403145, E-mail : aibparc@gmail.com

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(For circulation among all the members of the Managing Committee as well as the Governing Council of AIBPARC, Special Invitees, State Secretaries and Advisors of AIBPARC.)

Dear Comrade,

Sub : Press Release of AIBOC on 22.02.2018.

We reproduce hereunder the above noted press release for information of our members.

With best wishes,

(SUPRITA SARKAR)
ACTING GENERAL SECRETARY

QUOTE

Date: 22.02.2018

PRESS RELEASE

STOP THE BLAME GAME-LET RBI & FINANCE MINISTRY OWN RESPONSIBILTY

Much is talked and written about scams in the Banking sector after the Nirav Modi Scam in PNB. Why RBI, Finance Ministry, CVC and others wake up only when a major scam surfaces? Why we are not analysing the failure of the system? What is the role of the Govt and its policies which cause system failures and scams?

There have been Harshad Mehta Scam, Ketan Parekh Scam, and the NPA scam (not declared as scam by the Govt or RBI) due to misuse of the loopholes in the system.

In this case, when a Buyer's Credit is available for importers why at all RBI introduce Letter of Undertaking which is not in vogue among foreign banks? What was the necessity for RBI to encourage imports by helping the borrower to get cheaper credit abroad instead of helping Indian Banks to increase them credits which would give better taxes for the country?

It is a well known fact that the SWIFT has been used for frauds from the nineties and there are many reported hacks of SWIFT . Why RBI and the Govt did not intervene to correct the system?

What happened to Supervision and Audit? Why RBI failed in supervision? Is it because RBI has been busy with other things like demonetisation? They are still counting the notes ever after a year! Has RBI lost its autonomy?

In what way the Chief Economic Advisor has improved the economy? He is talking about Privatisation? Does he want to handover the Banks which have been looted by the Corporates to them so that they can loot more?

We need better banking, better reporting, better supervision and better technology in aid of these. What we need is to ignore the cry to privatise PSBs, as if ownership uniquely determines ethics and efficiency. The popular chestnut is that PSB are structurally vulnerable to poor governance, resulting in the run-up in NPAs. Data, yet again, militate against the hypothesis.

While there might be cases of fraudulent behaviour, they are not the overwhelming cause for the accretion of NPAs in PSB. Second, cases of governance breakdowns are not a monopoly of PSB — globally and in India, many privately-owned banks have been regularly identified with such errors of omission and commissions. Global regulatory fines on banks run into many billions of dollars every year.
The Economic Survey 2016-17 studied the causes of the large NPA build-up in PSB. A very large part of it can be attributed to a growth- induced credit bubble, followed by macroeconomic and regulatory issues that burst the bubble rudely. Corruption and malfeasance were not identified as a key variable.

In 2008, a raft of European and American banks, all privately owned, had to be bailed out by governments. The list of institutions bailed out included some of the best known brands in the business. The financial crisis of 2007-08 was the result not of public sector sloth and corruption but of private sector greed and poor regulation. Lehman Brothers went belly up, without any state ownership. Royal Bank of Scotland and Barclays avoided collapse by taking government equity. It is not ownership but the quality of regulation, reporting and management that determine banking efficiency.

Closer home, privately-owned Global Trust Bank and Bank of Rajasthan had to be rescued with state support. The reason for the above is quite simple — banking isn't the same as soaps, or steel, or hotels.

In India, the political economy circumscribes the quality of regulation and internal control policies at banks. It is important to appreciate this while fixing responsibility for the bad loans and large frauds at public sector banks.

The TARP or Troubled Assets Reconstruction Programstrategy of the US government to bail out US banks in 2008 cost approximately $800 billion. How much has the Government of India spent, over the years, on PSB bailouts? How does it compare with the rest of the world? Contrary to the popular narrative, Indian banks (predominantly PSB) have required very little bailouts over the years, compared to the rest of the world.
Both in terms of direct fiscal costs as well as indirect costs to the economy, banking bailouts in India have been quite modest in terms of their impact. An IMF Working Paper on Systemic Banking Crisis, covering all banking and sovereign crises between 1970 and 2011 brings out the data starkly. The average fiscal cost of bank bailouts across the world was 6.8% of GDP between 1970 and 2011. For emerging economies, the cost was 10% of GDP. For India, in the same period, bank bailouts cost far less than 1% of GDP, a negligible amount.
The current PSB recapitalisation planannounced by the government, amounting to Rs 2.11 lakh crore over two years, would account for less than 0.5% of current year GDP, and less than 0.25% annualised for two years. Further, India's bank bailouts have extracted far less cost out of the Indian economy than bank stress situations elsewhere.
Despite a sticky systemic NPA issue with PSB for five years, we have had no run on a bank, no stress in the money markets and limited impact on growth.
While there are many reasons for this, a big reason has been state ownership of the banking system. It has meant that bank liabilities have implicit sovereign guarantee, which maintained confidence of the markets in the banking system.

The country is struggling with mounting unemployment. The Banks have money but they are scared of lending. They are investing the funds in safe bonds where they are losing interest. Net result is that the Economy is not growing. Employment is not increasing. What is needed is to have a relook at the policies. It is high time to redirect credit towards Agriculture, Horticulture, Food Processing, small and cottage industries which will increase employment.

11643 borrowers in the country have availed 38% of the total loans given by Banking Sector as on March 2016. Just 12 NPA A/cs have an outstanding of Rs.250000Cr. 84% of the NPAs belong to Corporates. Every year banks are writing off thousands of crores for this corporates which is the biggest scam. FICCI and Assocham should ask them members to be honest and repay the loans instead of demanding privatisation. RBI is not willing to publish the list of NPA borrowers. The RBI is the one which introduced CDR, SDR, S4, AQR and PCA. None of them have helped the Banks but they have helped the Corporates to loot. With the revised norms the Banks will have to declare Rs.2 lakh crores more as NPAs and provide 50% provision for them. This is going to make all the Banks in the country to become red. This will lead to a financial crisis like the US crisis of 2008. The Govt may announce a Financial Emergency and handover Banks to the Corporates. This will be a danger to Democracy itself.

What is needed is reversal of the Economic policies, credit policies and NPA norms and bring in transparency. Why accounts with security should be provided 100% provision for NPA in two years?

Why the present Govt has not appointed officer Directors and Employee Directors, in the boards of the Banks, which are mandated by law? They have scant regards for law itself.

Why Banks are forced into other activities like Aadhar Linkage, Aadhar enrolment, selling pension scheme of Govt, Cross Selling which often is misselling? These are major reasons for weakening supervision.

Why the MD of PNB was sent to Allahabad Bank and why another person was appointed as MD of Punjab National Bank? What is Mr. Vinod Rai doing in BBB?

Rather than fixing accountability from the top why 18000 transfer orders were issued in a hurry? The CVC guideline can be implemented in a phased manner. It could have been implemented after annual closing. Who is responsible for the mid academic disruptions to the education of children of the employees?

Why RBI is still hesitant to Publish List of Defaulters and allow them to run away from the country?

Why the Prime Minister takes with him the businessman on foreign tours who are known for misuse of the system/ Why the same set of businessmen get contracts abroad?

Why these businessmen are show cased abroad and why they are selected by the PMO & Finance Ministry instead of Industry Associations which was the practise earlier?

Three important steps are needed immediately to save the banking sector and the economy.

One: Publish the names of defaulters of the Banks and ask banks to write to the home Ministry to make entry in the passports of the Board of Directors of these Companies “Emigration Clearance Required” so that they don’t run away like Vijay Mallaya, Jatin Mehta, Nirav Modi and Mehul Choksi.

Two: Have a relook at the NPA norms. Why all accounts which have a default of 30 days be declared as NPA? Why not look at the reasons, scope for recovery, security etc?

Three: Appoint Officer Directors, Employee Directors and Nominee Directors immediately and allow them to play a watchdog role. Remove RBI Executives and Finance Ministry Officials from the Boards of Banks as they are Supervisors and they can’t supervise themselves. It’s time for a wakeup call.

D.T. Franco
General Secretary