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Let's continue the struggle to protect the PSBs

Comrade,

The Union Budget for 2021-22 was presented in the Parliament at a time when the economy was recovering from the sufferings of Covid-19. Naturally, it was expected that the budget would provide relief to the people who have witnessed unprecedented sufferings due to series of lockdowns and the resultant economic slowdown. But the Government, without any hesitation chose to continue its neo-liberal policy and has decided to hand over the Nation's Public Sectors to Corporate houses and foreign multinationals. The reason, the Government says is to raise resources for the Government expenditure.

The Public Sectors in India is a product built out of the anti-colonial struggle. During the colonial rule, the nation's natural resources were controlled by foreign capital. India's Freedom was not just political, but also of getting back control over its resources from the hands of foreign capital on behalf of the people as a whole. The public sector alone could work in the interests of the people as a whole.

Before nationalization, the banks were taking care of the financial needs of economically upper sections/the industrial houses, that too only in urban areas. Only after nationalization, Banking reached the common people and penetrated semi-urban and village areas. The Banks mobilized deposits from the common people and extended credit to the farmers, petty producers, and other people of small means who had not been extended banking services before that.

Now, after the successful observance of the 15th and 16th March strike against the privatization move of the Government, Finance Minister assured that the interest of the bank employees will be protected at all cost. But in reality, the corporates who take over the banks will not extend the protection beyond a certain period. Further, it is strongly apprehended that the assets of the PSBs will be sold to the private corporates at throw-away prices and believed that bad loans will be transferred to the ARCs just to clean balance sheets to attract the corporates.

The argument of privatizing a large number of public sectors by handing over the nation's resources permanently to the private corporate and foreign capital to avoid breaching of fiscal deficit is unacceptable. Instead, the government can augment their income by increasing the wealth Tax, inheritance tax on the richest people, and increase GST on luxurious goods consumed by the corporates to keep the fiscal deficit within the prescribed/desired limit.

The Government has been pursuing neoliberal policies for a long just to undermine the public sectors. By removing the tag of Public Sector from the PSBs an attempt is made to weaken the PSBs and strengthen the Private Sectors banks and it should be resisted with all might for protecting the interest of the people and the country.

Yours Comradely

R Sekaran
Secretary General

AT1 BONDS : SEBI NEW NORMS

Context: The decision of the Securities and Exchange Board of India (Sebi) to slap restrictions on mutual fund (MF) investments in additional tier-1 (AT1) bonds has raised a storm in the MF and banking sectors.

The Finance Ministry has asked the regulator to withdraw the changes as it could lead to disruption in the investments of mutual funds and the fund-raising plans of banks.

What are AT1 bonds? What's total outstanding in these bonds?

- AT1 Bonds stand for additional tier-1 bonds.
- These are **unsecured bonds** which have perpetual tenure. In other words, the bonds have no maturity date.
- They have **call option**, which can be used by the banks to buy these bonds back from investors.
- These bonds are typically **used by banks to bolster their core or tier-1 capital.**
- AT1 bonds are subordinate to all other debt and only senior to common equity.
- **Mutual funds (MFs) are among the largest investors** in perpetual debt instruments, and hold over Rs 35,000 crore of the outstanding additional tier-I bond issuances of Rs 90,000 crore.

What action has been taken by the Sebi recently and why?

- **100-year Instrument:** In a recent circular, the Sebi told mutual funds to value these perpetual bonds as a 100-year instrument. This essentially means MFs have to make the assumption that these bonds would be redeemed in 100 years.
- **Limit Ownership:** The regulator also asked MFs to limit the ownership of the bonds at 10 per cent of the assets of a scheme.
- **Linkage with Yes Bank Crisis:** According to the SEBI, these instruments could be riskier than other debt instruments. The SEBI has probably made this decision after the RBI allowed a write-off of Rs 8,400 crore on AT1 bonds issued by Yes Bank Ltd after it was rescued by SBI

What is the impact of this decision?

- **Increased Risk:** Typically, MFs have treated the date of the call option on AT1 bonds as maturity date. Now, if these bonds are treated as 100-year bonds, it raises the risk in these bonds as they become ultra long-term.
- **Increases Volatility in Bond Prices:** This could also lead to volatility in the prices of these bonds as the risk increases the yields on these bonds rises. Bond yields and bond prices move in opposite directions and therefore, higher yield will drive down the price of bond, which in turn will lead to a decrease in the net asset value of MF schemes holding these bonds.
- **Push MF to engage in Panic Selling:** Moreover, these bonds are not liquid and it will be difficult for MFs to sell these to meet redemption pressure. Potential redemptions on account of this new rule would lead to mutual fund houses engaging in panic selling of the bonds in the secondary market leading to widening of yields
- **Impacts Fund Raising Capability of Banks:** AT1 bonds have emerged as the capital instrument of choice for state banks as they strive to shore up capital ratios. If there are restrictions on investments by mutual funds in such bonds, banks will find it tough to raise capital at a time when they need funds in the wake of the soaring bad assets.

Why has the Finance Ministry asked SEBI to review the decision?

- The Finance Ministry has sought withdrawal of valuation norms for AT1 bonds prescribed by the SEBI for mutual fund houses as it might lead to mutual funds making losses and exiting from these bonds, **affecting capital raising plans of PSU banks.**
- The government doesn't want a disruption in the fund mobilisation exercise of banks at a time when two **PSU banks are on the privatisation block.**

MFIs : Digital and Physical micro lending

Context: Micro-lending is in the news again for the wrong reasons – first is related to Assam and the second is related to Digital Micro Lending.

What is microfinance?

- Microfinance is a basis of financial services for entrepreneurs and small businesses deficient in contact with banking and associated services.
- The two key systems for the release of financial services to such customers include **'relationship based banking'** for individual entrepreneurs and small businesses along with **'group-based models'** where several entrepreneurs come together to apply for loans and other services as a group.
- Usually, their area of operations of extending small loans are rural areas and among **low-income people** in urban areas.
- The model had its genesis as a **poverty alleviation tool**, focused on economic and social upliftment of the marginalised sections through lending of small amounts of money **without any collateral** to women for income-generating activities
- Lack of security and high operating costs are some of the major limitations faced by the banks while providing loans to poor people. These limitations led to the development of microfinance in India as an alternative to provide loans to the poor with an aim to create **financial inclusion** and equality.
- MFIs act as **supplements to Banks** as they not only offer micro credit but they also provide other financial services like savings, insurance, remittance and non-financial services like individual counseling, training and support to start own business etc.

Salient Features of Microfinance

- Borrowers are from the low income group
- Loans are of small amount – micro loans
- Short duration loans
- Loans are offered without collaterals
- High frequency of repayment
- Loans are generally taken for income generation purpose

Microfinance in India

- **SEWA Cooperative Bank** was initiated in 1974 in Ahmedabad, Gujarat, by Ela Bhatt which is now one of the first modern-day microfinance institutions of the country.
- MFIs in India exist as NGOs (registered as societies or trusts), Section 25 companies and Non-Banking Financial Companies (NBFCs).
- The National Bank for Agriculture and Rural Development (NABARD) offered financial services to the unbanked people, especially women and later decided to experiment with a very different model, which is now popularly known **as Self-help Groups (SHGs)**.
- Commercial Banks, Regional Rural Banks (RRBs), cooperative societies and other large lenders have played an important role in **providing refinance facility** to MFIs.
- Banks have also leveraged the Self-Help Group (SHGs) channel to provide direct credit to group borrowers.

Some Facts

- MFI loan portfolio has reached Rs 2.31 lakh crore at the end of FY2020, touching the lives of 5.89 crore customers.
- Some of the MFIs, that qualify certain criteria and are non-deposit taking entities, come under RBI wings for Non-Banking Financial Company (NBFC) Regulation and supervision. These "Last Mile Financiers" are known as NBFC MFI.
- The objective of covering them under RBI was to make these NBFC MFIs healthy and accountable.

What is the issue of MFI in Assam?

- Assam government passed a bill which barred micro-finance institutions (MFIs) from lending to vulnerable sections of society. It was a response to a backlash against MFIs.
- A large number of borrowers working in tea plantations had taken loans from MFIs. RBI noted that the **economic slowdown** in tea plantations and anti-Citizenship (Amendment) Act disruptions led to rise in the delinquencies.

- MFIs started sending collectors for recoveries to the borrowers, leading first to the backlash and then the political response in terms of the bill.
- In 2010, the Andhra Pradesh government also passed similar legislation like the one in Assam against MFIs leading to a crisis in the industry.
- Though the scale of lending is lesser in Assam and is unlikely to drive MFIs to a crisis, finance is not about scale alone but interconnectedness of the players.

What is the issue with Digital Micro-lending?

- Digital lending platforms have mushroomed and there are criticisms of high interest rates, hidden charges, unacceptable recovery methods and misuse of data of borrowers.
- RBI expressed caution against digital lending platforms and constituted a working group to study both regulated and unregulated digital lending so that an appropriate regulatory approach can be put in place.
- Fintechs will soon be criticised for being Shylocks and loan sharks. Pre-2008 crisis, financiers were the cynosure of all eyes and post-crisis they were branded as devils of the game.

Way Ahead

- In 1870s, a similar backlash emerged in Poona and Ahmednagar districts of the Bombay presidency. The agriculture boom in the early 1860s led farmers to take loans from moneylenders. As the boom went bust, farmers were unable to pay these loans. The moneylenders took away land placed as collateral, fuelling protests and riots.
- Government responded by passing the Deccan Agricultural Relief Act in 1879 that barred the arrest of the agriculturist-debtor and saved his immovable property from attachment and sale, unless specifically pledged. However, this and other related legislations enacted did not have the desired impact.
- Therefore, government of the day must learn from the previous incidents before passing laws that restrict the working of MFIs. One should go for an honest review of the entire issue by engaging with all the stakeholders involved in this sector.

We convey our Heartiest Congratulations to all the Executives and our Members who have been elevated to Higher Scales and best wishes in all their endeavours in the days to come.

On Cryptocurrencies and Regulations

Context: Government has proposed bringing in a law on cryptocurrencies so as to put an end to the existing ambiguity over the legality of these currencies in India.

What is cryptocurrency?

- A cryptocurrency is a digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend.
- Many cryptocurrencies are decentralized networks based on blockchain technology-a distributed ledger enforced by a disparate network of computers

Regulation of Cryptocurrencies

- The government has, from time to time, suggested that it does not consider cryptocurrencies to be legal tender.
- The disapproval of cryptocurrencies by government is due to fact that such currencies are highly volatile, used for illicit Internet transactions, and wholly outside the ambit of the state.
- In 2018, the RBI did send a circular to banks directing them not to provide services for those trading in cryptocurrencies.
- Those challenging the RBI Circular in Supreme Court had argued that these were commodities and not currencies. Therefore, RBI did not have the jurisdiction.
- The circular was set aside by SC, which found it to be "disproportionate".
- Regulatory bodies like RBI and Sebi etc also don't have a legal framework to directly regulate cryptocurrencies as they are neither currencies nor assets or securities or commodities issued by an identifiable user

Challenges

- This legal ambivalence has not, however, been able to prevent cryptocurrencies from having a growing user base in India.
- Their attraction may only grow now, given that the most well-known of them as also the most valuable, Bitcoin, has hit new peaks in price and is gaining influential followers such as Tesla founder Elon Musk.
- Cryptocurrency exchanges, which have sprung up, are reportedly lobbying with the government to make sure these currencies are regulated rather than banned outright.

Way Forward

- Smart regulation is preferable, as a ban on something that is based on a technology of distributed ledger cannot be implemented for all practical purposes.
- Even in China, where cryptocurrencies have been banned and the Internet is controlled, trading in cryptocurrencies has been low but not non-existent,.
- The government must resist the idea of a ban and push for smart regulation.

Retirements

Sl.No.	NAME	DESIGNATION	BRANCH
1	Com. NAGAN C	Asst General Manager	FGM Office, Chennai
2	Com. GANESAN S	Asst General Manager	Corporate Office
3	Com. HEM RAJ	Asst General Manager	FGM Office, Chandigarh
4	Com. GOPAL MUTHAPPA SHETTY	Deputy Zonal Manager	Zonal Office, Mumbai West
5	Com. SUKUMAR D	Chief Manager	Zonal Office, Coimbatore
6	Com. ARUMAI NATHAN T	Chief Manager	SAMV Chennai
7	Com. BASKARAN B	Chief Manager	Zonal Office, Puducherry
8	Com. RAJENDRAN T P	Chief Manager	Tiruchengode
9	Com. ARUN A	Senior Manager	Annamalainagar
10	Com. SARALA DEVI C K	Senior Manager	Corporate Office
11	Com. HARIDASAN V	Senior Manager	Inspection Centre, Bengaluru
12	Com. RAJARAM P S	Senior Manager	Inspection Centre, Coimbatore
13	Com. MOHAN M	Senior Manager	Inspection Centre, Chennai
14	Com. DINAKARAN S T	Senior Manager	North Usman Road
15	Com. SHANMUGARAJ J	Senior Manager	Namakkal
16	Com. PRADIP KUMAR DE	Manager	Strand Road
17	Com. PRESANNAKUMARI G	Manager	Puthur
18	Com. GANTI LILY ROSE	Manager	Gokavaram
19	Com. VIJAYA A	Manager	Pudur
20	Com. RAJAN PRATHAAP R	Manager	Gugai Salem
21	Com. BALAMURUGAN K	Manager	Sivadhapuram
22	Com. SUJIT BAISHYA	Asst. Manager	Kolkata South Sinthi
23	Com. MURALI R	Asst. Manager	Udumalpet

AIIBOA Wishes the above Comrades a Very Happy, Healthy and Peaceful Retired Life.

WEDDING BELLS

Selvan **S Hariprasanth**

(S/o R.Sekar, Senior Manager)

Married to

Selvi **M Gayathri**

at Arcot, on 15-02-21

Selvi **V Pradeepa, M.E.,** (Indian Bank)

Married to

P. Suganthan, B.E.,

(Canara Bank)

at Madurai on 22-02-21

Selvi **V Maheswari**

(D/o Shri. Veeraghavan Reddiyar, DGM(Retd))

Married to

Selvan **Sriram** @ **P. Ajay**

at Puducherry on 03-03-21

Selvi **V Manjupriya, M.A.,**

(D/o A Venu, Asst Manager, Indian Bank)

Married to

Selvan **D Surendiran, B.B.A.,**

at Chennai on 05-03-21

Selvan **R Packiaraj, BSc., (Agri)**

(Senior Manger, Indian Bank)

Married to

Dr. B Jeevitha, Ph.D., (Agri)

at Manamadurai on 15-03-21

Selvi **N Krithika, B Tech., PGDHRM, DLLAL.,**

(D/0 Shri. M Nagarajan, B.E.,(Agri), CAIIB, General Manager (Rtd), Indian Bank)

Married to

Selvan **S Praveen Kumar, B.Tech**

at Puducherry on 24-03-21

AIIBOA Wishes a Very Happy Married Life to the Newly Wedded Couple.

Photo Gallery

Women's Day
Essay writing competition
Prizes distributed to the winners.