Indian retirees whacked by contractual bail-in

Another Indian bank has bitten the dust. Troubles at the fourth-largest private lender Yes Bank induced the Reserve Bank of India (RBI) to take action that is not going down well with the population, sparking grave mistrust at a time when financial markets are reeling. The RBI froze deposit accounts at the bank, which holds US$20 billion worth of deposits, in order to prevent a bank run. Account holders were only allowed to withdraw US$675 per month, but many ATMs were not dispensing cash and electronic funds transfers were not available. According to a 9 March report in Bloomberg, the restrictions also led to disruptions of the digital payments network. “The same authorities who tirelessly extol the virtues of going cashless failed to see that Yes Bank was a major intermediary at the back end”, providing banking technology services to other businesses from food delivery to ticketing agencies, reported Andy Mukherjee.

Another controversy erupted when Tier 1 bonds with contracts that allow them to be completely written off (bailed in) in a crisis were confiscated, leaving pensioners who weren’t aware of the risks with heavy losses. Livemint. com reported on 9 March that retail investors—banned from holding such products in Europe—were lured into the investments by high interest rates and high-level assurances from bank managers. Fortunately, Indian outrage forced the government in 2018 to withdraw its legislation for full statutory bail-in, else deposits would have disappeared too. As Bloomberg reported, “A previous attempt at enacting a law for handling financial failure itself failed. Public opinion was rightly against turning depositors into shareholders.” And Prime Minister Narendra Modi’s “scrapping of 86 per cent of the currency”, that is large denomination bills— a form of cash restriction—has worsened the situation as people can’t sock away their money.

The government poured $332 million into Yes Bank in a partial nationalisation, but the bank is estimated to need $2-3 billion to survive. In September 2018 a growing housing debt bubble was pricked when Infrastructure Leasing & Financial Services collapsed and was partially nationalised. Banks had been lending heavily to the shadow banking sector, but after the IL&FS saga, it was wound back substantially, restricting credit flow into the housing market which had been rapidly inflated by the shadow sector for over five years. The subsequent cooling of the property market fed a further round of collapse. In September 2019, operations of the Punjab and Maharashtra Co-operative Bank (PMC) were frozen by the RBI and in October corrective action was taken against Lakshmi Vilas Bank (LVB), while Yes Bank shares plummeted. In November 2019, the government seized control of large mortgage lender Dewan Housing Finance Corporation and initiated bankruptcy proceedings.

Propelled by the increase of bank collapses, in February the government announced it would raise the limit of deposit insurance. Guaranteed deposits now extend to Rs 5 lakh (500,000 rupees or just over $10,000); the previous limit was Rs 1 lakh. Still a pittance.

By Elisa Barwick, Australian Alert Service 11 March 2020
