RBI norms spell loss for pvt bank CEOs

NIKHAT HETAVKAR & ANUP ROY
Mumbai, 26 February

RBI has also taken measures to reduce the "risk" component of CEO remuneration by capping variable pay at 200% of fixed pay

Chief executives officers (CEOs) of private banks might see their future earnings decreasing and face increased scrutiny, if the Reserve Bank of India's (RBI's) proposed rules are implemented, said experts on Tuesday.

Late on Monday night, the RBI issued a white paper, purportedly aimed at eschewing the celebrity status of bank CEOs in the private sector. The proposed guidelines said their variable pay needs to constitute at least half of the total remuneration. This would reduce the fixed component and put greater focus on performance.

The central bank has also taken measures to reduce the "risk" component of CEO remuneration by capping variable pay at 200 per cent of fixed pay and containing the stock options as part of the variable pay. "When the new rules come into force it will surely hit the earning potential of bank CEOs. Not only are the employee stock-ownership plans (ESOPs) getting clubbed with the variable play, the CEOs also get penalised for their non-performing assets (NPA) performance. The whole idea is now that the CEOs cannot enjoy short-term profits anymore," said Sabyasachi Chakraverty, business head of banking and financial services at Teamlease Services.

Experts say the variable pay used to be in the range of 30 to 40 per cent for bank CEOs. The ESOPs meanwhile used to be much higher than 200 per cent of the basic pay, and that too over and above the variable pay.

An inspection of the annual reports of various private banks revealed that the total of bonus proposed and stock options vested for their CEOs was exorbitantly higher, even going as far as five times of their fixed pay in certain cases.

"The job of a chief executive is to protect investor interest. The limit on stock options is to ensure that executives do not have the inclination to drive up the stock for short term," said Kris Lakshmikanth, managing director, The Head Hunters. According to a source, banks will ask the RBI to keep the ESOPs out of the variable pay structure as Esops encourage the CEOs to perform better so that investors find the stock attractive and the prices rise. However, by the same logic, the bank CEOs can also act to manipulate the stock to maximise their own benefit.

The RBI's discussion paper said that compensation practices been at the centre stage of the regulatory reforms since these practices, especially of large financial institutions, were one of the important factors which contributed to the global financial crisis in 2008. The regulator said that it has formed guidelines on the basis of various international standards which work towards reducing incentives towards excessive risk taking that may arise from the structure of compensation schemes. They also call for effective governance of compensation, alignment of compensation with prudent risk taking, effective supervisory oversight and stakeholder engagement.

"It is a move on part of the RBI to restrain the risk factor of the remuneration, as is seen globally as well. It will likely prevent the possibility of occurrences like the Infrastructure Leasing & Financial Services crisis," said Lakshmikanth.

The RBI said that the new guidelines are proposed to be effective from the ensuing financial year, post issue of the final guidelines.

This comes at a time when the private banking space is seeing an upheaval of top management with new faces stepping in to take reins of ICICI Bank, Axis Bank and YES Bank recently while their predecessors had to step down amidst a flurry of controversy.

IndusInd Bank and HDFC Bank are also on the brink of seeing a CEO replacement as their CEOs near retirement. Sources state that the new guidelines are unlikely to severely affect the existing remuneration of the CEOs but will ensure that the new batch of private bank CEOs are kept in check.

Govt looking at ways to avoid frivolous bids under IBC

VEENA MANI
New Delhi, 26 February

The government is looking at ways to ensure that 'frivolous bids' are not placed under the Insolvency and Bankruptcy Code (IBC), Corporate Affairs Secretary Injeti Srinivas said on Tuesday.

The Centre is mulling whether criminal proceedings should be initiated against those not implementing resolution plans, or be barred from bidding for any other company undergoing resolution under the IBC, he said.

Another reason for stopping such bids is to get a defaulting applicant to pay for the costs incurred during resolution. *Business Standard* had reported earlier that the Centre was planning to find a way to bar those not honouring the order of the National Company Law Tribunal (NCLT) on resolution plans. In the recent past, there have been cases where resolution applicants have refused to pay after the plan being approved by NCLT.

Also, Srinivas said prepackaged resolution would be in place in two years' time. It had been first reported by *Business Standard* that the government was considering a pre-packaged insolvency regime.

Srinivas also said Section 12(A) of IBC allowed out-of-court settlement if 90 per cent lenders allowed the withdrawal of the insolvency application against a borrower. However, India does not have the pre-packaged insolvency arrangement, unlike UK. Srinivas said: "It will take time to reach the UK model but that is being worked out."

The government is also looking at group insolvency, as the actual borrowing in many companies is found at the level of subsidiaries and not the parent company's.