MERGER OF LAKSHMI VILAS BANK WITH DBIL – THE ULTIMATE PANACEA BY RBI*

Lakshmi Vilas Bank (LVB) is the fifth Indian financial firm to collapse over a span of 3 Years after Infrastructure Leasing and Financial Services (IL&FS), Dewan Housing Finance Limited (DHFL), Yes Bank and Punjab and Maharashtra Cooperative (PMC) Bank.

LVB was an Indian private sector bank founded in 1926 by a group of seven businessmen of Karur under the leadership of Shri V. S. N. Ramalinga Chettiar. Their objective was to cater to the financial needs of people in and around Karur who were occupied in trading businesses, industry and agriculture.

Cause of Failure of LVB

The financial position of The Lakshmi Vilas Bank Ltd. has undergone a steady decline with the bank incurring continuous losses over the last three years, eroding its net-worth. In absence of any viable strategic plan, declining advances and mounting non-performing assets (NPAs), the losses are expected to continue. The bank has not been able to raise adequate capital to address issues around its negative net-worth and continuing losses. Further, the bank is also experiencing continuous withdrawal of deposits and low levels of liquidity. It has also experienced serious governance issues and practices in the recent years which have led to deterioration in its performance. The bank was placed under the Prompt Corrective Action (PCA) framework in September 2019 considering the breach of PCA thresholds as on March 31, 2019.

The Reserve Bank had been continually engaging with the bank's management to find ways to augment the capital funds to comply with the capital adequacy norms. The bank management had indicated to the Reserve Bank that it was in talks with certain investors. However, it failed to submit any concrete proposal to Reserve Bank and the bank's efforts to enhance its capital through amalgamation of a Non-Banking Financial Company (NBFC) with itself appears to have reached a dead end. As such, the bank- led efforts through market mechanisms have not fructified. As bank-led and market-led revival efforts are a preferred option over a regulatory resolution, the Reserve Bank had made all possible efforts to facilitate such a process and gave enough opportunities to the bank's management to draw up a credible revival plan, or an amalgamation scheme, which did not materialize. In the meantime, the bank was facing regular outflow of liquidity.

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LVB placed under Moratorium

After taking into consideration these developments, the Reserve Bank has come to the conclusion that in the absence of a credible revival plan, with a view to protect depositors' interest and in the interest of financial and banking stability, there is no alternative but to apply to the Central Government for imposing a moratorium under section 45 of the Banking Regulation Act, 1949. Accordingly, after considering the Reserve Bank's request, the Central Government has imposed moratorium for thirty days effective from specified date.

The Reserve Bank assures the depositors of the bank that their interest will be fully protected and there is no need to panic. In terms of the provisions of the Banking Regulation Act, the Reserve Bank has drawn up a scheme for the bank's amalgamation with another banking company. With the approval of the Central Government, the Reserve Bank will endeavour to put the Scheme in place well before the expiry of the moratorium and thereby ensure that the depositors are not put to undue hardship or inconvenience for a period of time longer than what is absolutely necessary.

The Reserve Bank of India, in exercise of the powers vested under Section 35A of the Banking Regulation Act, 1949 directs that The Lakshmi Vilas Bank Ltd., as from 1800 hours on November 17, 2020, shall not make any investment, incur any liability or agree to disburse any payment, whether in discharge of its liabilities and obligations or otherwise, or enter into any compromise or agreement, or shall transfer or otherwise dispose of any of its properties or assets, Disbursement to depositors and creditors can be made to the extent permitted by the order of moratorium dated November 17, 2020, Expenditure may be incurred towards meeting the obligations in respect of the following items. a) salaries of employees, b) rent, rates and taxes, c) printing, stationery, etc. d) postage and telegrams. e) Legal expenses etc.

Supersession of the Board of Directors & Appointment of Administrator

In exercise of the powers conferred under Sub-section (1) of Section 36 A C A of the Banking Regulation Act 1949, the Reserve Bank has, in consultation with Central Government, superseded the Board of Directors of The Lakshmi Vilas Bank Ltd. for a period of 30 days owing to serious deterioration in the financial position of the bank. This has been done to protect the depositors' interest. Shri T. N. Manoharan, former Non-Executive Chairman of Canara Bank has been appointed as the Administrator under Sub-section (2) of Section 36 A C A of the Act.

RBI announces Draft Scheme of Amalgamation

The Reserve Bank of India has placed in public domain a draft scheme of amalgamation of The Lakshmi Vilas Bank Ltd. (LVB) with DBS Bank India Ltd. (DBIL), a banking company incorporated in India under Companies Act, 2013, and having its Registered Office at New Delhi.

DBIL is a wholly owned subsidiary of DBS Bank Ltd, Singapore ("DBS"), which in turn is a subsidiary of Asia's leading financial services group, DBS Group Holdings Limited and has the advantage of a strong parentage. It has been issued a banking license to operate as banking company under Section 22 (1) of the B R Act, on October 4, 2018. DBIL has a healthy balance sheet, with strong capital support. As on June 30, 2020, its total Regulatory Capital was ₹7,109 crore (against Capital of ₹7,023 crore as on March 31, 2020). As on June 30, 2020, its GNPAs and NNPAs were low at 2.7% and 0.5% respectively; Capital to Risk Weighted Assets Ratio (CRAR) was comfortable at 15.99% (against requirement of 9%); and Common Equity Tier-1 (CET-1) capital at 12.84% was well above the requirement of 5.5%. Although the DBIL is well capitalised, it will bring in additional capital of ₹2500 crore upfront, to support credit growth of the merged entity. Owing to comfortable level of capital, the combined balance sheet of DBIL would remain healthy after the proposed amalgamation, with CRAR at 12.51% and CET-1 capital at 9.61%, without taking into account the infusion of additional capital.

Lakshmi Vilas Bank Limited (Amalgamation with DBS Bank India Limited) Scheme, 2020

The Government of India on 25th November, 2020 sanctioned the Scheme for the amalgamation of the Lakshmi Vilas Bank Ltd. with DBS Bank India Ltd, called the Lakshmi Vilas Bank Limited (Amalgamation with DBS Bank India Limited) Scheme, 2020. The amalgamation came into force on the appointed date i.e. November 27, 2020. All the branches of the Lakshmi Vilas Bank Ltd. started functioning as branches of DBS Bank India Ltd. with effect from that date.

Customers, including depositors of the Lakshmi Vilas Bank Ltd. were able to operate their accounts as customers of DBS Bank India Ltd. with effect from November 27, 2020. Consequently, the moratorium on the Lakshmi Vilas Bank Ltd. was ceased for operation from that date. DBS Bank India Ltd. made necessary arrangements to ensure that service, as usual, provided to the customers of the Lakshmi Vilas Bank Ltd.

Conclusion:

The unearthing of irregularities in advance and ability to prevent frauds are the priority one for the smooth functioning of bank. The issues relating to the adequate capital base, good corporate governance, sound business principle, prudent commercial practices, adoption of new technology and adequate system of checks and balances etc. are prime actions to prevent private bank crisis.

Source :

1. https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=50672
2. https://www.informalnewz.com/two-more-banks-in-trouble-know-how-much-of-your-deposit-is-safe-with-the-bank/
3. https://companycontactinformation.com/lakshmi-vilas-bank-contact-information-head-office-email-id/

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