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**Dear Comrades,**

**2nd August , 2016**

**NEWS OF INTEREST 2<sup>ND</sup> AUG**

**“IF EVERYONE HELPS TO HOLD UP THE SKY, THEN ONE PERSON DOES NOT BECOME TIRED.”**

**DR. ASKHARI JOHNSON HODARI**

**HIGHLIGHTS**

- 1. RBI CLEARS DECKS FOR UNIVERSAL BANKING**
- 2. SBI UNVEILS CHEAPER HOME LOANS TO TAP INTO 7TH PAY PANEL BONANZA**
- 3. WHEN BANKS RETURN TO RETAIL LENDING**
- 4. NEW LENDING RATE SYSTEM A BOON FOR MID-SIZED BANKS**
- 5. ICICI BANK REDUCES MCLR BY 0.05 PER CENT**
- 6. SBI WEIGHS PLAN TO SHUT, RELOCATE 30% OF ITS BRANCHES**
- 7. SEBI APPROVES RBL BANK’S LONG PENDING IPO**
- 8. RBI OKAYS FEDERAL BANK CEO RE APPOINTMENT**
- 9. RAJAN WANTS MONETARY POLICY PANEL BEFORE HE LEAVES RBI**

**1. RBI clears decks for universal banking**

**OUR BUREAU**

The Reserve Bank of India on Monday unveiled guidelines for ‘on-tap’ licensing of new private banks, opening the door for entities such as Edelweiss Financial Services, JM Financial, LIC Housing Finance, Magma Fincorp, Muthoot Finance, Shriram Capital and UAE Exchange & Financial Services, which had missed the bus in the last round, to float universal banks.

The guidelines in respect of promoter eligibility, corporate structure, foreign shareholding, dilution of promoter group shareholding and listing on the stock exchanges appear liberal as compared to the 2013 guidelines under which IDFC Ltd and Bandhan Financial Services were allowed to set up banks.

Under the new guidelines, resident individuals and professionals with 10 years’ experience in banking and finance are eligible to promote universal banks.

Previously, only entities/groups in the private sector, entities in the public sector and non-banking financial companies (NBFCs) were eligible.

Large industrial houses are excluded as eligible entities, but can invest in the (universal) banks up to 10 per cent. A universal bank is a bank offering retail, wholesale and investment banking services under one roof.

Under the new guidelines, a Non-Operative Financial Holding Company (NOFHC) is not mandatory for setting up a bank in case the promoters are individuals or stand-alone promoting/converting entities who/which do not have other group entities.

The RBI has said that in case a bank is to be set up through an NOFHC, a promoter/promoter group should hold not less than 51 per cent of the total paid-up equity capital in the holding company. Earlier, entities/groups had to set up a bank through a wholly owned NOFHC.

Entities/groups in the private sector that are 'owned and controlled by residents' and have a track record of at least 10 years, are eligible as promoters. If such entity/group has total assets of ₹5,000 crore or more, the non-financial business of the group should not account for 40 per cent or more in terms of total assets/gross income.

Existing NBFCs 'controlled by residents' with a track record of at least 10 years are also eligible as promoters. However, any NBFC, which is a part of the group that has total assets of ₹5,000 crore or more and where the non-financial business accounts for 40 per cent or more is not eligible.

### **Paid-up capital**

The initial minimum paid-up voting equity capital has been left unchanged at ₹500 crore. However, thereafter, the bank must have a minimum net worth of ₹500 crore at all times.

The criteria requiring promoter/s and the promoter group / NOFHC to hold at least 40 per cent of the paid-up voting equity capital, which will be locked-in for five years from commencement of business, remains unchanged. The promoter group shareholding will need to be brought down to 15 per cent within 15 years (from 12 years earlier).

The (universal) bank has to get its shares listed on the stock exchanges within six years (from three years earlier) of the commencement of business.

The current aggregate foreign investment limit is 74 per cent will apply to universal banks. Under the earlier regime, the aggregate non-resident shareholding could not exceed 49 per cent for the first five years.

George Antony, Managing Director, UAE Exchange India, said: "...The final call on application for the universal banking licence will be decided post the board meeting to be convened shortly."

## **2. SBI unveils cheaper home loans to tap into 7th pay panel bonanza**

OUR BUREAU

With the government deciding to implement the recommendations of the 7th Pay Commission on wage hike with effect from August 1, State Bank of India has

introduced home loan products for Central/ State government/ public sector undertaking employees and defence personnel, whereby they will get the benefit of repaying the loan over a longer period and at softer interest rates.

The bank, in a statement, said government employees will have the flexibility of repaying home loans up to the age of 75 years. Under the existing home loan schemes, repayment is normally available up to the age of 70 years.

The bank has introduced 'Privilege Home Loan' for government employees and 'Shaurya Home Loan' for Defence Personnel with pensionable service.

Home loan borrowers under the two schemes will enjoy an interest rate concession of five basis points over the Home Loan Card Interest Rate. One basis point is equal to one-hundredth of a percentage point.

This concession is available wherever check-off facility (to debit the borrowers salary account) is extended by the government under a tie-up arrangement with the bank. SBI said it will fully waive off the processing fee. It also added that customers of other banks/ financial institutions can switch over their home loan outstanding balances to State Bank of India under these schemes.

The bank said the burden of servicing equated monthly instalments (EMIs) under the new schemes will be made lighter with lower EMIs in the post-retirement term.

"The launch of 'SBI Privilege Home Loan' and 'SBI Shaurya Home Loan' products is timed with the notification of the 7th Pay Commission recommendations by the government.

"Surplus income can thus be utilised by government employees and defence personnel towards purchase of new/ better house," it said.

### **3. When banks return to retail lending**

CP CHANDRASEKHAR  
JAYATI GHOSH

With an increase in the bad loans burdening the books of the banking sector, commercial banks once again seem to be focusing on the retail lending business. While broadly defined as lending to individuals, retail lending covers a host of loans: those meant for investment in housing, those for purchases of consumer durables and automobiles and those for education, deferred payments on credit card expenditures or unspecified purposes.

The post-liberalisation changes in banking practices included an increased emphasis on retail lending, which transited from being a risky and cumbersome business to one considered easy to implement, profitable and relatively safe. In some instances, such as housing, the income earned (rent received) or expenditure saved (stoppage of rent payment) from the investment is seen as providing a part of the wherewithal needed to service the loan.

In other areas, confidence that future incomes to be earned by the borrower would be adequate to meet interest and amortisation payments provides the basis for enhanced retail lending.

### **Too much exposure**

The result of the transition in perception has been a sharp increase in the share of retail lending in total advances since the early 1990s. After having risen gradually from 8.3 per cent of total outstanding bank credit at the end of 1992-93 to 12.6 per cent in 2001-02, the share of personal loans rose sharply to touch 23.3 per cent at the end of 2005-06 (Chart 1). This was a time when total bank credit too was booming.

It is to be expected when there is a sharp increase in lending to a few sector of this kind, those who would have earlier been considered risky or not creditworthy could enter the universe of borrowers.

Not surprisingly, by this time the fear that overexposure could result in an increase in defaults had begun to be expressed.

Addressing a seminar on risk management in October 2007, when the subprime crisis had just about unfolded in the US, veteran central banker and former chair of two committees on capital account convertibility, SS Tarapore, warned that India may be heading towards its own home-grown sub-prime crisis ('Sub-prime crisis brewing here, warns Tarapore' *Business Line*, October 17, 2007).

Banks too began to hold back as reflected in a gradual decline in the ratio of personal loans to gross bank credit from 23.3 per cent to 15.6 per cent in 2011-12. While this was still above the level at the beginning of the previous boom, the decline in share did suggest that the retail lending splurge had moderated.

However, more recently, this decline in the share of retail lending has reversed, rising from 15.6 per cent in 2011-12 to 16.6 per cent in 2014-15. Figures on rates of growth tell a clearer story.

According to Care Ratings, over the financial years ending March 2015 and March 2016, while overall non-food credit grew at 8.6 and 9.1 per cent respectively, personal loan growth rates were 15.5 and 19.4 per cent respectively.

Over the financial year ended March 2016, the home loan segment grew by 19.4 per cent, vehicle loans by 22 per cent, and credit card outstanding by 23.7 per cent.

### **House of cards**

The reasons for this turn are not difficult to find. First, the other major area of growth in bank lending has been infrastructure, which today accounts for a large proportion of the non-performing assets on the books of the bigger banks. So banks have been seeking out new avenues of lending. With industry not performing too well and agriculture languishing, retail lending emerges as the preferred choice.

Second, since retail lending was discouraged in the period prior to financial liberalisation, the exposure of the retail sector to debt is still quite low.

The ratio of personal loans to personal disposable income has indeed increased in India, from 2.4 per cent at the end of 1995-1996 to 13 per cent in 2007-08, and it still is at a historically high level of around 12.5 per cent (Chart 2).

However, this is extremely low when compared with, say, South Korea, where in 2013, when it faced a housing loan crisis, the ratio of household debt to household disposable income was around 150 per cent.

While that may be far too high a figure for a country like India with a much lower per capita income to approach, it has considerable headspace in this area.

Finally, default rates on retail lending, even if increasing, are still quite low. In the case of the State Bank of India for example, NPAs in its retail loan portfolio are placed at a little above 1 per cent, whereas the aggregate NPA ratio is above 6 per cent according to recent estimates. So shifting to retail lending seems a sound idea.

### **Segments of concern**

That of course depends on the degree to which increasing exposure in the retail market requires diversifying the retail portfolio of banks. As of now, housing loans overwhelmingly dominate that portfolio, accounting for well above 50 per cent of the total (Chart 3).

With loan-to-value ratios in housing still low in many cases, and housing serving as good collateral, NPAs in this segment are among the lowest. There are three other areas that account for a reasonable share of personal loans outstanding: automobiles, education and credit card outstanding.

Of these, while the automobile loan segment is not a high default area, education is definitely proving to be so. Government policy mandates provision of education loans of up to ₹4.5 lakh without collateral.

So recovery too is difficult. Yet the inability to find jobs after financing education with loans is resulting in rising defaults, which, according to reports, average 8 per cent of such loans.

Moreover, well over a quarter of retail lending is in the "others" category, and possibly includes personal loans for unspecified purposes advance without collateral or lending against shares, etc. by banks trying to build their retail portfolio.

Here too, rising default is a probability as aggregate lending increases and recovery difficult.

That prospect notwithstanding, it is more than likely that India would witness another retail lending boom, led by banks trying to maximise their presence in this ostensibly underexploited area.

That may well result in exposure of a kind that warrants the fears expressed earlier by the late SS Tarapore.

Economic Times

#### **4. New Lending Rate system a boon for mid-sized banks**

By Joel Rebello, ET Bureau |

The Marginal Cost of Funds based Lending Rate (MCLR) system could become a tool for expanding business especially for the mid-sized private sector banks as it gives them an opportunity to offer lower rates in short-term maturities, opening up a new market which was so far not within the reach of these lenders.

The new MCLR regime, which was implemented from the current fiscal year, applies to all new borrowers and is closely linked to bank deposits rates. All new floating rate loans are now linked to MCLR.

The key difference between MCLR and the previous base rate regime is that the new rates are divided into different baskets corresponding to bank deposits. So banks will have an overnight MCLR, a one-month rate, a three-month, six month and one year rate at which it can price its loans.

The only difference is that the loans have to be re-priced based on the deposit basket which they are linked to, unlike rates in the base rate which used to move when the bank used to change its rates.

This elimination of rigidity of base rate has opened doors for the likes of IndusInd Bank, Kotak Mahindra and Yes BankBSE 0.35 % to lend at lower rates and allowing them to compete with larger peers like ICICI BankBSE -5.19 %, SBI, Axis Bank and HDFC BankBSE -0.39 %. The difference in the shorter tenure is stark. Yes Bank's overnight and one-month MCLR at 8.80% is lower than ICICI's (8.95% for overnight and one month rate), despite ICICI's assets being atRs7.17 lakh crore which is about seven times bigger than Yes Bank's Rs1.15 lakh crore.

In other words, Yes Bank can compete with a bank seven times its size in the selected buckets provided it prices its loans well. "The new regime allows banks like us to compete which we could not do before because our base rate is high. I can price a five-year loan on a one month MCLR but I just have to ensure that I have deposits of similar maturity which will reprice every month. But I have to be careful while pricing because they are at a lower margin and finely priced," said a banker with a mid-sized bank It opens another business opportunity for these high growth lenders.

## **5. ICICI Bank reduces MCLR by 0.05 per cent**

By PTI |

Country's largest private sector lender ICICI BankBSE -5.19 % today announced a 0.05 per cent reduction in its marginal cost of funds based lending rate (MCLR).

The overnight MCLR will be 8.90 per cent under the revised rate structure which is effective from today, sources said.

The one-year MCLR, to which the home loans are linked, has moved down to 9.10 per cent, they said, adding that the reductions are across tenors.

The RBI introduced the MCLR from April 1 this year for faster transmission of its policy actions into actual lending rates by the banks. Lenders are given the leeway to review their MCLR once in a month and it is the hope of the RBI that the competition will help them act faster.

The MCLR replaced the base rate system and so far the banks, lenders have been very quick to react to competitive forces in making marginal rate adjustments.

## **6. SBI weighs plan to shut, relocate 30% of its branches**

By Saloni Shukla, ET Bureau

State Bank of India BSE -0.70 %, the biggest bank in the country, is considering a proposal to either relocate or shut down about 30% of its nearly 24,000 branches (SBI Group) to remain competitive as advised by global management consultant McKinsey.

While McKinsey did not respond to ET's query, SBI MD Rajnish Kumar confirmed that the bank had hired McKinsey for branch optimisation but did not offer any comment or detail about the size of the rationalization.

"We had engaged McKinsey for branch and ATM optimisation and customer enhanced experience programme," Kumar told ET. "We have also engaged Accenture Financial services to draw up a plan on our In Touch branches."

As part of its branch optimisation measures, State Bank of India recently either shut down or relocated more than 400 branches to cut costs. The bank now has 16,784 branches and another 6,978 branches will be added to its network once the associate merger process is complete by this fiscal year-end. The bank has also gone slow in adding additional branches. While SBI added 1,053 branches in FY14 that number fell to 464 in FY15.

The bank added 451 branches at the end of the last financial year. SBI is currently gearing up for the merger of five associate banks and the scope for cost rationalisation is expected to increase further. SBI will merge all its five subsidiaries -- State Bank of Bikaner and Jaipur BSE -0.29 %, State Bank of Travancore State Bank of Patiala, State Bank of Mysore BSE -2.90 % and State Bank of Hyderabad -- with itself. "Going forward, we need to be present where we need to," Kumar said. "With the associate banks now coming in, there will be a scope for branch rationalisation on a much larger scale." Kumar said there were several instances where SBI had 5-6 bank branches within 50 metres to 1 km (radius) and the bank would consolidate them depending on the business the branch generates. The bank has not arrived at how much costs it will save.

"Cost savings will definitely happen, otherwise why (would) you merge unless you can take benefit out of that synergy," said Kumar. "We are mapping how many branches overlap location by location and in another 15-20 days, we will have a fair idea on that." The bank is also looking at newer format for its branches. It has opened 133 In Touch branches which provides a variety of online services in self-service mode. When merged, the entity will be a banking behemoth with an asset base of Rs 37 lakh crore, branch network of nearly 24,000 and 58,000 ATMs.

## **7. SEBI approves RBL Bank's long pending IPO**

PTI

Private sector lender RBL Bank has received capital markets regulator SEBI's approval for its long-pending IPO for which it had filed draft papers nearly a year ago.

The bank, which had filed draft papers with SEBI in June last year, seeking approval to float IPO, received clearance from the regulator on July 27, according to the latest update.

The Securities and Exchange Board of India (SEBI) withheld approval to RBL's IPO as the regulator was examining past violation by the private sector lender.

RBL's IPO plans were hanging in balance for a long time due to the outstanding cases.

The approval comes after SEBI settled an outstanding case against the lender for alleged violation of disclosure norms with regard to an earlier issuance of shares to select investors for over ₹ 600 crore.

The settlement involved payment of ₹ 47.6 lakh towards 'monetary settlement charges', as also a commitment by the bank that it would give an exit opportunity in its IPO to the investors to whom shares were issued earlier in rights issues.

As per the draft papers, the IPO comprises fresh issue of equity shares worth ₹ 1,100 crore and offer for sale of up to 17,568,408 scrips by existing shareholders including Beacon India Private Equity Fund and GPE (India) Ltd.

RBL Bank had reportedly raised ₹488 crore in a pre-IPO round of fund raising last year.

The proceeds of the IPO would be used to shore-up the equity capital base, to meet future capital requirements and to ensure compliance with Basel III and other Reserve Bank's guidelines.

According to RBL Bank (formerly Ratnakar Bank Ltd), the listing of equity shares will enhance the visibility and brand name among existing and potential customers.

Kotak Mahindra Capital Company, Axis Capital, Citigroup Global Markets India and Morgan Stanley India Company are the global coordinators, while HDFC Bank, ICICI Securities, IDFC Securities, IIFL Holdings and SBI Capital Markets are the book running lead managers of the issue.

## **8. RBI okays Federal Bank CEO re appointment**

Federal Bank Ltd on Monday said it has received RBI nod for the reappointment of Shyam Srinivasan as the MD & CEO for another three years.

The reappointment will be with effect from September 23, 2016 (the completion of the present term of office) till September 22, 2019 on existing terms and conditions, the old generation private sector bank said in a notice to BSE.

## **9. Rajan wants monetary policy panel before he leaves RBI**

Reuters

India should quickly put in place a monetary policy committee (MPC) to institutionalize decision-making on interest rates and keep the focus on controlling inflation, outgoing RBI governor Raghuram Rajan said on Monday.

The Reserve Bank of India (RBI) governor wants to see a committee established before his three-year term ends in September.

The government has yet to appoint a replacement for Rajan, a former International Monetary Fund chief economist whose appointment in 2013 had boosted investor confidence in India's management of its economy.

The RBI and the government agreed last year to form a policy-making panel, and the Centre has been expected to announce the final composition of the committee sometime this year.

"I think this creates an institution which many other countries have adopted, which India was slow to adopt, but which will stabilize expectations about inflation in the future," Rajan told a conference attended by central bankers and regulators in Indonesia.

"It is important that this framework is in place. I'm working very hard to get this in place before I leave."

The committee will be made up of three members from the RBI, including the governor, and three selected by the government. The governor will chair the committee and his vote will act as a tie-breaker.

Rajan has championed the change, saying it would lead to more institutionalised decision-making process, rather than the current system which gives the governor wide discretion in setting interest rates and changes to other policy settings.

The RBI has cut its benchmark interest rate by 150 basis points since January 2015, including a 25 bps cut in April. But it has held rates due to worries about rising inflation since then, and is widely expected to keep it on hold at a review next week.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)**  
**GENERAL SECRETARY**