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Dear Comrades,

3<sup>rd</sup> August , 2016

### NEWS OF INTEREST 3<sup>RD</sup> AUG

#### HIGHLIGHTS

- 1. ARUN JAITLEY REMINDS ABOUT SEPT 30 DATE FOR INCOME DISCLOSURE WITH WARNING**
- 2. GOVT STUDY PEGS FACE VALUE OF FAKE CURRENCIES AT RS 400 CRORE**
- 3. ECONOMIC RISKS CONSTRAIN INDIAN AND CHINESE BANKS, SAYS S&P**
- 4. OPEN ARCHITECTURE OF BANC ASSURANCE NOW A REALITY IN INSURANCE**
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- 1. Arun Jaitley reminds about Sept 30 date for income disclosure with warning**

Committing to deal strongly with black money, Finance Minister Arun Jaitley today warned those having undisclosed income against missing the chance to make the declaration by September 30 even as he said rapid progress has been made with regard to probe in Panama paper leaks.

By: PTI

Committing to deal strongly with black money, Finance Minister Arun Jaitley today warned those having undisclosed income against missing the chance to make the declaration by September 30 even as he said rapid progress has been made with regard to probe in Panama paper leaks.

Jaitley was replying to a debate on Benami Transactions (Prohibition) Amendment Bill, 2016 in the Rajya Sabha, which later passed the legislation by voice vote. The Lok Sabha passed it last week.

A law alone will not solve the problem of black money but efforts will have to be made to create fear of law and stop its generation, he said.

"Since it's the Benami law like the black money law, there has to be a deterrent provision which we have put in this particular law and I hope people get the clear signal and don't give the state an opportunity as far as using this law is concerned," he said.

Referring to the Income Disclosure Scheme, Jaitley said those having unaccounted money should take advantage of the disclosure window ending September 30 to come clean by paying 45 per cent tax and penalty.

Talking about the Panama leaks, the minister noted that the government had created a multi agency group.

The multi-agency group probing the Panama papers leaks, which has named around 500 Indians who have allegedly stashed money in offshore entities, had submitted three reports to the government last month.

"There are many people who have illegal accounts, there are some who say they have transferred money on the basis of RBI rules. That investigations have progressed a lot," he said.

He further said the government has taken action in case of HSBC accounts, Lichtenstein Bank and the information provided by International Consortium of Investigative Journalists (ICIJ).

Jaitley said that fiduciary and trustee holding is allowed under the Benami bill but the investment should be made from the known sources of income.

He said the law also provides for those genuine property purchases which could have been funded by family members or other sources as a loan.

The earlier term of "known source of income" has been replaced with "known sources" with regard to purchase of property, the Finance Minister added.

He said the property outside the country will not be covered under the Benami law but will be dealt with under the black money law.

The Finance Ministry said that sufficient safeguards have been put in place to prevent any misuse provisions of the Benami law, which seeks to confiscate such properties.

"Four layers of officers and an appeal tribunal has been created since this is a major power," he said, adding it is being done because there were apprehensions that one officer might end up being corrupt.

Talking about the properties in tribal areas, he said those can be exempted from the purview of the law by the Governor of the respective state.

On concerns being expressed over mandatory use of PAN Card for purchase of high value properties, he said already 22-23 crore cards have been issued out of 25 crore families and anyone spending lakhs of rupees could obtain it online.

Further, he added that states are digitalising the land records which will help in dealing with the black money.

Jaitley said the Benami bill is aimed at seizing benami property besides prosecuting those indulging in such activities as the provisions for prosecution could not be operationalised in want of rules in the 1988 Act.

He said the government was bringing amendment as if it would have brought a new Act "penal provisions could not apply retrospectively and those guilty of violations would have got scot-free."

The 1988 Act, which also has provisions for prosecution, has not been operationalised as the rules in this regard have not been framed, he said and added Law Ministry has suggested amendment for entire functioning of the Bill and accordingly rules have to be framed.

The Minister said while the 1988 Act has nine sections, the amended law would have 71 sections. Under Article 20 of the Constitution, penal provisions cannot be applied retrospectively, he said.

He said the government has accepted the Parliamentary Standing Committee's suggestion to change the words in the Bill from "known sources of income" to "known sources" with a view to further strengthen the provisions.

Jaitley said that offences under the amended law would be non-cognisable as the government does not want multiple agencies to get involved and harass people. Besides bonafide religious trusts, he said there are few exceptions relating to Hindu Undivided Family and trusts owning properties.

Participating in the debate, Shamsher Singh Dullo (Cong) demanded digitising the land records and bringing in black money transactions in real estate.

He said the capital in the country was concentrated in the hands of 15-20 persons only and demanded that as per the Prime Minister's announcement, the government should bring in black money kept in foreign and provide Rs 15 lakh each to the accounts of people.

Bhupender Yadav (BJP) applauded the move for Benami bill saying it will check the parallel economy. Attacking the government, Naresh Agrawal (SP) demanded to know how many legislations it planned in the name of checking black money.

"We are hearing it. There are so many bills. Some bill should be final. At least announce that this is the last bill. How many Acts you plan in the name of Black Money? When Real Estate Bill came Venkiah Naidu said it will stop black money in Real Estate.

There is Prevention of Corruption Act, Whistle Blower is pending," he said. He quipped, "If so many Acts are not effective, bring an Act to abolish these".

He also demanded to know as to what happened to Prime Minister's announcement of bringing 15 lakh in each account.

In the present Benami Bill, Income Tax has been empowered with the power to arrest and added that government already had ED, CBI and SEBI, Agrawal said.

He also asked the government what it did on Panama leaks alleging there were many companies registered and black money was brought to India through FDI route.

A Vijaykumar (AIADMK) said the provisions in the bill are silent on the role of whistle blowers and their protection and stressed that the Bill be reconstructed.

Vivek Gupta (AITC) said there are certain problems in the bill as some provisions are not defined properly and it also conflicts with state laws, especially tribal laws.

He suggested the government to hand over the confiscated land to the state government while seeking details on number of people arrested since the law was formed in 1988.

Harivansh (JD-U) said benami investments should be prevented and emphasised the need to create an atmosphere for proper implementation of the bill.

Ritabrata Banerjee (CPI-M) said the government has not taken into account the recommendations of the Parliamentary Standing Committee even as he supported the bill saying "united we need to act on this".

Munquad Ali (BSP) said the bill should be implemented properly as the black money holders would find novel ways to escape.

Welcoming the bill, R S Bharathi (DMK) aired certain reservations while suggesting that confiscated properties should be handed over to states and adjudicating authority must be appointed either in each state or region wise.

Supporting the bill, Rajeev Shukla (Cong) said the bill should not lead to unnecessary harassment and the government should take precaution on this.

Ram Kumar Verma (BJP) said the economy would have not a boost had the bill come long time back.

Naresh Gujral (SAD) sought to know the status of those properties which were taken in relatives names earlier and later transferred back to children of the original owner when this bill come into force.

He also said that 30 days period to provide evidence of records should be extended keeping in mind the land records still not digitised in many parts of the country.

K Keshava Rao (TRS) said many recommendations of a Parliamentary Standing Committee have not been factored in.

He wanted the government to revisit the bill at the time of rule making while defining benami transaction and powers to adjudicating officers among others.

Since Telangana has come out with rules to regularise benami properties, he wished to know if it conflicts with this bill.

## **2. Govt study pegs face value of fake currencies at Rs 400 crore**

Fake currency notes with face value of a staggering amount of Rs 400 crore are in circulation across the country, a government-mandated study has found.

Fake currency notes with face value of a staggering amount of Rs 400 crore are in circulation across the country, a government-mandated study has found.

The study on Fake Indian Currency Note (FICN) issues, including estimation of FICN in circulation, was conducted by Indian Statistical Institute (ISI), Kolkata under the overall supervision of NIA (National Investigation Agency).

"As per the study, the face value of FICN in circulation was found to be about Rs 400 crore. It was found the value remained constant for the last four years," Minister of State for Finance Arjun Ram Meghwal said in a written reply to a Rajya Sabha question.

To check the menace of counterfeiting of banknotes, the Ministry of Finance, Ministry of Home Affairs, Reserve Bank, security and intelligence agencies of the Centre and states are working in tandem to thwart the illegal activities related to FICN, Meghwal said.

"An FICN Coordination Group (FCORD) has been formed in the Ministry of Home Affairs to share the intelligence amongst different security agencies of states/Centre to counter the menace of agencies to effect more seizures," he said.

Replying to a separate query, the Minister said during financial year 2014-15 and 2015-16, projects involving investments of Rs 25,878 crore were awarded by major ports.

"As per an RBI data, FDI of Rs 1.17 lakh crore was received in infrastructure sector including roads, railways, ports etc in the last two years," he said.

Business Standard

### **3. Economic risks constrain Indian and Chinese banks, says S&P**

Banks in India and China will continue to face pressures on their asset quality, profitability over next 12-24 years, report said

#### **Abhijit Lele**

Standard and Poor (S&P) on Tuesday said banks in India and China would continue to face pressure on their asset quality, profitability, and capitalisation in the next 12-24 months.

According to S&P Global Ratings Credit Analyst Geeta Chugh, economic risks would remain high for Indian and Chinese banks because of their constraining credit profiles. Non-performing loan ratios of Indian banks with high exposure to companies in troubled sectors would continue to rise. Whereas, for Chinese banks, continuing weak cash flows for companies were likely to worsen asset quality for lenders.

S&P on Wednesday had released a report, Economic Woes Cast a Shadow on Indian and Chinese Banks. The report claimed that asset quality for Indian and Chinese banks was likely to remain under pressure because of slow industrial recovery in India and overcapacity in many Chinese industries.

S&P said interest-rate liberalisation and deepening debt capital markets in India could weaken the banking sector's net interest margin (NIM). Likewise, China's financial reforms, local government debt swaps, and deepening domestic debt capital market will shrink bank profitability and asset yield.

"NIMs will compress for Indian banks with corporate focus and higher bad loans. Banks are also likely to reduce lending rates further, after having cut base lending rates by 70-90 bps in the past few quarters. Also, continuing high credit costs will also limit any meaningful improvement in profitability."

Indian banks would have sizable capital needs to support growth and meet Basel-III requirements, it said. Chinese banks were also likely to maintain strong momentum of capital-instrument issuance.

Most Indian public sector banks would have to rely on external capital infusion. Their ability to generate internal capital has been hit largely because of the pressure on asset quality in the past few years.

"In view of the potential shortfall in capital, India's public sector banks will need to continue to explore other funding options, including additional Tier-1 issuance, and funding from insurance companies or equity capital markets," according to S&P.

Referring to credit growth in India, S&P said it had fallen sharply, reflecting the weak corporate credit demand as well as capital challenges that most public sector banks are facing. "We expect loan growth in India's banking sector to be 11 per cent to 13 per cent in the current financial year."

#### **4. Open architecture of banc assurance now a reality in insurance**

This, especially after LIC signed an agreement with Axis Bank as its banc assurance partner last week

M Saraswathy

India's largest insurer Life Insurance Corporation of India (LIC) has signed an agreement with private sector lender Axis Bank as its banc assurance partner last week. This was one of the biggest tie-ups post April 1 when the new corporate agency norms came into being. This joins the several other tie-ups made by banks with multiple insurers, bringing into reality open architecture of banc assurance in insurance.

From April 1, norms have been revised under which corporate agents like banks are allowed to tie-up with three life, three non-life and three standalone health insurance companies. Earlier, the banc assurance model meant that banks could only sell products of one life, one non-life and one standalone health insurer.

After several rounds of discussions with insurers who had expressed apprehension over opening up their 'exclusive' bank partner networks to multiple insurers, a consensus was achieved. Unlike earlier draft norms where banks were asked to mandatorily open up and reduce business from any single insurer, the final norms said that banks had an option of tying up with up to nine insurers including life, non-life and health.

Both private banks as well as public sector banks have shown interest in making multiple tie-ups. For instance, Tata AIG General Insurance has entered into corporate agency (non-life insurance) agreement with public sector lender Bank of Baroda to distribute multiple general insurance products to its customers. Earlier, Star Health Insurance and Bank of Baroda entered into a Corporate

Agency agreement today to market Star Health products across the Bank's branches, across the country.

Bank of Baroda has been among the most active among the public sector banks with respect to the tie-ups. It also tied-up with standalone health insurer Max Bupa to offer the latter's health insurance offerings to the bank customer base spread across the country.

Apart from Axis Bank, other private banks have also entered into multiple tie-ups. In May 2016, IndusInd Bank announced that it has entered into a tie-up with Reliance General Insurance to distribute its insurance products across all its bank branches. This was one of the first private sector bank agreements signed after the new corporate agents norms came into being.

Data shows that the banc assurance market size was Rs 9,500 crore in FY14 (individual segment) and it grew to more than Rs 11,000 crore in FY15 driven by large unit-linked insurance policy sale. There is still a large scope since public sector banks with more than 400 million accounts have an insurance penetration of just over one per cent. It is estimated that increase of penetration in the public sector banks alone to 15 per cent, can add 50 million customers and generate additional Rs 60,000 crore in life insurance premium in the next five years.

Opening up of all bank branches to multiple insurers is still some time away, though the insurance regulator has said that bank boards must give out their plans to open up their branch networks to multiple insurers. The aim is that no one bank can remain an insurer's exclusive partner.

However, with multiple tie-ups, the liabilities also rise. Insurance Regulatory and Development Authority of India (IRDAI) has said that the bank and its employee(s) would be responsible for any insurance sale made and hence if any misselling complaints arise, they can be called into question.

In a recent directive to banks and non-banking financial companies (NBFCs), IRDAI has said that they should strengthen their processes to discourage forced selling or misselling. "It is emphasized that refunding the money or allowing the customer to change the mode of payment or plan is not the solution for this vexatious issue (misselling or forced sale). Instead the Banks/NBFCs should have a system which should proactively detect and discourage such kinds of misselling/forced selling/wrong selling," the regulator said.

Business Line

## **5. Indian Bank net profit jumps 43%**

PTI

Indian Bank today reported a 42.77 per cent increase in net profit at Rs. 307.36 crore for the first quarter ended June 30.

The bank had a standalone net profit of Rs. 215.28 crore in the April-June quarter of last fiscal.

Total income also rose to Rs. 4,512.96 crore during the June quarter from Rs. 4,494.53 crore in the same period previous fiscal, Indian Bank said in a filing to the BSE.

Net non-performing assets (NPA) of the bank rose to 4.48 per cent at the end of June 2016 from 2.62 per cent in June 2015.

The bank's provisioning increased to Rs. 416 crore from Rs. 408 crore.

Shares of Indian Bank were trading up by 16.27 per cent at Rs. 180.45 on the BSE.

## **6. Karnataka Bank targets ₹2,490-crore export credit**

OUR BUREAU

Karnataka Bank aims to achieve export credit target of ₹2,490 crore during the current financial year, according to P Jayarama Bhat, Managing Director and Chief Executive Officer of the bank.

Delivering the keynote address in the forex business conference of the bank in Mangaluru on Tuesday, he said the business opportunities have turned bright with good onset of monsoon and other positive macro economic conditions. This will help the forex business too.

He advised the forex-designated branch heads and the regional heads to ensure compliance to all FEMA, RBI, and internal guidelines.

Bhat also unveiled a ready reckoner for forex transactions brought out by the bank on the occasion.

Mahabaleshwara MS, Chief General Manager of the bank, advised all the forex-designated branch heads to reach out to more and more exporters and importers to improve the forex business.

## **7. Dewan Housing Finance to raise Rs 7k crore from banks**

By Atmadip Ray, ET Bureau

Dewan Housing Finance Corporation is looking to raise up to Rs7,000 crore from banks, including State Bank of India, this fiscal by transferring its existing loan receivables as the housing financier plans to cut down borrowing from banks.

Dewan Housing's Chief Financial Officer Santosh Sharma told ET that the company is in talks with large public sector banks such as SBI and others to raise funds via this route.

The process of transferring existing loans to banks is known as direct assignment of loans in financial parlance. This is a form of securitisation of loans between two parties. It is a process of pooling in loan receivables and placing them with investors for raising funds.

The originator of the loan pays interest on it. The process helps the originator of the loans, in this case Dewan Housing, in unlocking capital and churning loan portfolios.

Sharma said loans worth Rs1,500 crore will be placed with banks in the second quarter to September. It has already raised Rs1,152 crore in the first quarter through such bilateral arrangement.

The Reserve Bank of India's new priority sector rule has mandated banks to meet the lending target on a quarterly basis, instead of annual target practised earlier. The new norm has encouraged this market to grow from the first quarter itself. Sharma said banks are looking to take non-priority sector loans from housing companies to shore up retail lending books.

He said the fund is raised at 9.3-9.45% less than its average fund cost of 9.56%. The issuer also earns collection charges as it continues with the task of collecting repayment. In a recent presentation to investors, Dewan Housing said priority sector guidelines for affordable housing supports its strategy of doing more securitisation deals. The company's off-balance sheet securitisation portfolio stood at Rs 8,500 crore.

Dewan Housing's loan outstanding stood at Rs63,800 crore at June end and the company has managed to lower its cost of fund by 43 basis points from 9.99% a year back by diversifying funding sources. "We will cut down banks loans and rely more of capital market for funds," Sharma said.

## **8. Banks asset quality to remain under pressure: S&P Global**

OUR BUREAU

S&P Global Ratings on Tuesday said the reported non-performing loans (NPLs) in India do not represent a true picture of inherent weaknesses in the banking sector.

The credit rating agency estimated that stressed loans (NPLs and standard restructured loans) in India are much higher than the reported NPLs, at roughly 11.5 per cent of total loans, compared with the reported 7.6 per cent.

In a report, the agency said the asset quality of Indian banks is likely to remain under pressure due to slow industrial recovery.

S&P Global Ratings anticipates that the NPL ratios of Indian banks with high exposure to companies in sectors facing difficulties will continue to rise, and banks with a backlog of provisions will face heightened credit costs.

"We expect asset quality of banks in India to remain under pressure for the next 12 months amid a continued gradual recovery in the economy," it said.

The banking system is groaning under the debt burden of some stressed corporate sectors in an economy that has yet to fire on all cylinders.

"Tepid domestic industrial activity, the corporate sector's subdued profitability, and high leverage in certain pockets are likely to remain worrisome for the country's banks.

"This is the case even though retail borrowers are healthy, and increasing urban consumption and public capital expenditure is helping the broader economy," it said.

S&P expects capacity utilisation to remain low for some corporate sectors after the high capital expenditure of the past few years, amid moderate demand. These sectors continue to face difficult operating conditions while grappling with high leverage and include infrastructure (such as power and roads) and iron and

steel. The risks associated with these sectors remain high even though authorities have taken steps to help matters.

### **Credit costs**

The agency said Indian banks' credit costs (provisioning expenses to cover potential losses) will remain high in fiscal 2017 (especially for corporate lenders with weak provision coverage) because of under-provisioning on their existing gross NPLs, weak corporate performance, continuing slippages of standard restructured loans into the non-performing category, and higher provisioning on strategic debt restructuring loans. The reserve coverage for bad loans is particularly low for public sector banks.

### **Profitability under pressure**

S&P said Net Interest Margins (NIMs) of Indian banks with corporate focus and higher bad loans will compress because of interest reversals on NPLs. Banks are also likely to reduce lending rates further after having cut base lending rates by 70-90 basis points in the past few quarters.

With kind regards,

Yours Comradely,



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