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Dear Comrades,

5th December , 2016

News of Interest 5th Dec

QUOTE FOR THE DAY

“PURSUE ONE GREAT DECISIVE AIM WITH FORCE AND DETERMINATION. “

CARL VON CLAUSEWITZ

1. NEW RS 20, RS 50 CURRENCY NOTES SOON; OLD NOTES NOT BANNED
2. DEMONETISATION: HERE'S WHY NOTE BAN HAS LED TO LONG QUEUES AT THE ATMS
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Financial Express

1. New Rs 20, Rs 50 currency notes soon; old notes not banned

The Reserve Bank on Sunday said it will soon issue new currency notes of R20 and R50 with numerals in ascending size in the number panels and without intaglio printing. All the existing Rs 50 and Rs 20 banknotes will continue to be legal tender.

By: FE Bureau

The Reserve Bank on Sunday said it will soon issue new currency notes of R20 and R50 with numerals in ascending size in the number panels and without intaglio printing. All the existing Rs 50 and Rs 20 banknotes will continue to be legal tender.

The RBI said new Rs 50 banknotes will not have inset letter in both the number panels, and will bear the signature of governor Urjit R Patel. The Rs 20 note will have an inset letter 'L' in both the number panels.

The RBI will shortly issue Rs 20 denomination banknotes in the Mahatma Gandhi Series-2005, with inset letter 'L' in both the number panels, bearing signature of governor Dr Urjit R Patel and the year of printing '2016' printed on the reverse of the banknote, the central bank said.

2. Demonetisation: Here's why note ban has led to long queues at the ATMs

Government underestimating the extent of informal economy has led to this situation at the ATMs

By: [Aurodeep Nandi](#)

Given the scale of demonetisation that the government has embarked on; this might seem like a very silly question. But then economists have a reputation of observing the obvious and then asking silly questions, so do indulge me!

Are the queues there because money supply has fallen in the economy? It's not that simple. Yes, cash in circulation has taken a hit, with the black and fake notes being weeded out. But then, a record amount of cash has flown into bank accounts; pushing up the overall money supply in the system.

Which brings us to a paradox. On the one hand, long queues at ATM machines refuse to abate, and there is a virtual paralysis of informal markets. On the other hand, interest rates, or the cost of holding onto money in an economy; is falling down!

So 'liquidity' in all its economic definitional glory, is high. Yet the common man is complaining of unavailability of cash!

Here's my pet theory. There's a reason why the sharp demand for cash isn't getting reflected in higher interest rates, as we are essentially talking of two very different markets. Interest rates are determined by the borrowing and lending that banks do among themselves, and subsequently with the government, firms and consumers. Among other things, they are dependent on supply of funds, i.e., bank deposits in the system; which is of course are at record highs.

On the other hand, the market that affects ATM queues—is the huge cash economy that is mostly informal or semi-formal, and is largely invisible in official statistics. This is essentially the market where farmers, grocers, maids, daily wage workers, and small shops operate. The conventional interest rate does not apply here (unless one is a moneylender), since most of the cash in this economy is meant for transactional purposes.

Till now we wouldn't specifically care much about this dichotomy, since the cost of withdrawing cash and flirting between the cash and cashless markets was minimal. But demonetisation has created a wedge between the two. Why, one may ask? To liken it to the concept of the formal money market, imagine there is a make-believe economy that is populated by only two types of people—(a) patient ones, who stand at the ATMs on a particular day to get hold of cash; and (b) the impatient ones, who do not have the time to stand in queues on that day, but are willing to offer a premium to the patient ones for immediate access to their cash, which they will return the next day. The patient lender will obviously charge for the time spent at the queue.

So in this hypothetical set-up of ours, the unofficial 'interest rate' in the cash economy will be proportional to the length of the queue, or hardship faced at banks to withdraw cash.

We now have the contours of how the demand and supply curves of transactional cash might look like in the informal economy. In the accompanying graph, the demand curve of cash (DD₁) is shown downward sloping. This is because as

'interest rate', or time waiting in queue increases, people will tend to demand lesser cash. Similarly along the X-axis, as the size of the informal economy increases; people will demand more cash to deal with it. Similarly money supply curve (SS₁) is upward sloping—hypothetical lenders of this cash will obviously lend more at higher 'interest rates', and as the size of the market increases.

The intersection of the two curves at point 'A' determines the equilibrium interest rate (read queue length) and size of this economy. This is how it was the day before demonetisation.

Post demonetisation, people suddenly realised that the cash that they had stocked was no longer adequate to service their requirements the next day. The supply curve started to shift to the left in response to the shock (to SS₂). As expected, the 'interest rate' or value of cash rose and the size of the informal economy shrunk; as the economy reached point 'B', which coincides with the real life scenario of huge ATM queues and chaos in the informal economy.

But the government also announced a daily limit on cash withdrawals; as it started recalibrating ATMs. Now the supply curve started becoming steeper, almost resembling a vertical line (SS₃). It becomes steep because it no longer matters how much 'interest' or hardship people are willing to bear for getting cash—only R2,500 per account holder is available for spending in the market place. In economic jargon, the supply becomes highly interest 'inelastic'. Queues get longer, and the informal economy gets further squeezed now at point C.

Meanwhile the demand curve starts to shift! After all, the average citizen is not sitting in front of a giant computer screen tracking overall demand and supply. She will observe the huge queues and panic. She might actually be spending less; but now wants to hoard all the cash.

It is little wonder that Arundhati Bhattacharya, chairman, SBI had recently exclaimed, "I have been requesting people that for heaven's sake, spend!"

All these external factors will cause the demand curve for money to yank up to DD₃, leading to the new equilibrium point, 'D'. The length of the queue gets even longer. ATMs will be running dry, thanks to the reduced supply of notes and the inflated demand.

So in the process of demonetisation—from points A to D—the length of the ATM queue has spiked up sharply; while the GDP of the informal economy has come crashing down.

The government could have better assessed the size of this informal, cash-based economy, and its demand for transactional cash; and tried to manage the cash supply curve beforehand to cushion the shock.

Or it could have first tried to flatten the demand curve. A flat demand curve for cash in our model would mean that it doesn't get affected much by the availability of cash, or queues at ATMs. For instance, had most citizens been regularly using mobile money; they couldn't have cared less for the cash availability at ATMs. The government could have spent the last few months aggressively running public campaigns promoting cashless transactions; just like it had done for Jan-Dhan Yojana. On a flat demand curve for cash; a sharp retraction in the supply curve would have caused minimal rise in ATM queues.

Unfortunately these steps are being considered now. Per se, demonetisation is a great step. Most economies dealing with their shadow economy have done so by attacking cash transactions. But the juggernaut in India suddenly changed course

without warning, and possibly adequate planning. And for all its intended and unintended benefits, it is very important that the people on the ground pulling it do not get crushed by its new course.

3. ATMs easy target for hackers, say experts

At a time when serpentine queues continue to grow outside ATMs across the country following the demonetisation move, a top executive of Intel Security has warned that ATMs in India are susceptible to security breaches.

By: [IANS](#)

At a time when serpentine queues continue to grow outside ATMs across the country following the demonetisation move, a top executive of Intel Security has warned that ATMs in India are susceptible to security breaches.

Intel Security, with its McAfee product line, is the world's largest dedicated security technology company.

In banks, a breach can happen at multiple levels like at an ATM, data centre, network or through mobile banking. "The ATM today is an easy target for hackers to hit a network," Anand Ramamoorthy, Managing Director, Intel Security, South Asia, told IANS in an interview.

ATM attacks have affected several countries in the recent past. A hacker group called Cobalt targeted ATMs across Europe last month and remotely attacked the machines using malicious software that manipulated the systems which led the machines to automatically dispense huge amounts of cash.

Banks in India will have to make efforts to ensure that ATMs are protected with multiple levels of authentication and industry-standard encryption, ensuring data security at all points of a transaction.

According to experts, banks need to work towards gradually enabling EMV chip and PIN-enabled card acceptance and processing at ATMs to enhance the safety and security of transactions.

"It is time that magnetic-stripe cards issued by banks for ATM transactions are replaced at the earliest. While the affected banks are blocking debit cards to minimise the impact, the already ongoing replacement of mag-stripe cards with EMV chip cards will help the banks and consumers," Atul Singh, Regional Director-Banking and Transport (India Subcontinent) at the digital security giant Gemalto, told IANS earlier.

EMV which stands for Europay, MasterCard and Visa is a global standard for credit cards that uses computer chips to authenticate (and secure) chip-card transactions.

"We have seen a big focus on ATM attacks in the Asia-Pacific (APAC) region, including India. ATMs in underdeveloped countries are particularly vulnerable as those countries still have old ATM software and are running Windows XP. This makes them the perfect target for an easier score," US-based cyber security company FireEye said recently.

In a tweet, Prime Minister Narendra Modi recently urged people to "embrace e-banking, mobile banking and more such technology", but Ramamoorthy warned that as mobile banking becomes popular, it will involve greater risks.

"You have to become aware as you become more digitised," noted Ramamoorthy, adding that mobile has become more of a financial gateway and its implications are huge for the country.

Earlier this year, following a malware-related security breach, the State Bank of India (SBI), HDFC Bank, ICICI Bank, Axis Bank and YES Bank blocked millions of debit cards that were compromised in one of the biggest data breaches in the financial sector.

"To protect ATMs from cyber attacks in the future, Intel Security has deployed an 'Embedded App' control which not only protects ATMs at the site but also the network which it is connected to," Ramamoorthy said, adding that the app is set for an update in 2017.

4. Paytm to merge its wallet service with payments bank

By Payal Ganguly & Pratik Bhakta

One 97 Communications, the parent company of digital payments provider Paytm, is preparing to merge its wallet service with the eponymous payments bank—the licence for which is owned by its founder Vijay Shekhar Sharma —once it receives regulatory approval.

The Noida-based company had incorporated Paytm E-commerce Pvt Ltd and Paytm Payments Bank Ltd as separate entities in August. The company also operates an ecommerce marketplace, which is expected to be spun off and serve as an entry pad for online retail operations of Chinese ecommerce giant Alibaba, according to sources aware of the plans within the company.

"As per the directions of RBI, the company will transfer its wallet business to the newly-incorporated Paytm Payments Bank Limited (PPBL) after receipt of necessary approvals," a spokeswoman for Paytm told ET. She declined to comment on the entry of Alibaba into the Indian ecommerce sector through the Paytm marketplace, terming it as 'speculation'.

Alibaba's digital wallet Alipay is in a technology-sharing partnership with Paytm. The combined entity of Alibaba and its subsidiary Ant Financial hold 40% stake in One97 Communications, having invested about \$680 million in the company.

"The (payments bank) is in the process of obtaining final licence from RBI and will commence operations after obtaining due approvals," the Paytm spokeswoman said.

The central bank has granted an 'in-principle payments bank licence' to Sharma, who holds a 51% share in the payments bank, with the balance owned by One97Communications. Sharma, in an earlier interview with ET, said he had made an Rs 112 crore investment for his majority stake in the payment bank. The Chinese conglomerate Alibaba does not directly own a stake in the soon-to-be launched payments bank.

"All banks have their own mobile wallets, so it should not be a problem for Paytm to have its wallet business merged with the payments bank business. However, the company has to segregate the wallet business from its ecommerce business as it might cause are regulatory hurdle," said Bhavik Hathi, managing director of consultancy firm Alvarez & Marsal.

Paytm has been one of the main gainers in the push towards digital currency following government's move to demonetise higher value currency notes.

Wallet companies like Paytm have registered a spike in user base as well as the number of transactions. According to data shared with ET, Paytm claims over 5 million transactions on a daily basis with a peak of Rs 120 crore worth of transaction

in a single day.

A recent report by consultancy and research firm EY India on 'Alternate Revenue Models for Payments Banks in India' states that "adjacent revenue opportunities for payments banks would be to explore expanding this ecosystem by partnering with ecommerce players and offering assisted services to customers through their business correspondent network," allowing for micro savings accounts and increasing the use case for associated digital wallets.

Paytm recently came under public scrutiny as the debate on demonetisation and increase in wallet signups brought to fore claims of Chinese investors benefitting from the move in India. ET had reported that Swadeshi Jagran Manch, which has been campaigning against inflow of Chinese goods into India, had said it will 'study' the relationship between Paytm and Chinese internet company, Alibaba Group. Alibaba's digital wallet Alipay is in a technology-sharing partnership with Paytm.

Business Line

5. Jan Dhan deposits stabilise; a/cs get Rs. 1,487 cr in 7 days

PTI

The big surge in deposits into Jan Dhan accounts after the demonetisation seems to be stabilising now as just Rs. 1,487 crore has been parked in them over 7 days to November 30, as against Rs. 8,283 crore in the previous week.

Deposits in the 25.85 crore such accounts totalled Rs. 74,321.55 crore at the end of November 30, as per the Finance Ministry data.

The overall amount was Rs. 72,834.72 crore in 25.68 crore accounts at the end of November 23.

After Prime Minister Narendra Modi surprised entire nation with demonetisation of Rs. 500 and Rs. 1,000 notes on November 8, deposits in Jan Dhan accounts have increased by 28,685 crore. As of November 9, the balance in about 25.5 crore such accounts was Rs. 45,636.61 crore.

Interestingly, the percentage of zero balance account still remains flat at about 22.85 per cent despite surge in deposits.

The Pradhan Mantri Jan Dhan Yojna was launched in August 2014 to increase banking penetration and promote financial inclusion in the country.

Such accounts have a deposit limit of Rs. 50,000. In order to check the misuse of Jan Dhan accounts by black money hoarders following the demonetisation, the Reserve Bank of India has restricted the withdrawal from such accounts to Rs. 10,000 per month.

According to RBI, fully KYC-compliant Jan Dhan account holders will be allowed to withdraw Rs. 10,000 per month from their account, while limited or Non-KYC compliant account holders can withdraw Rs.5,000 per month.

It said however that branch managers may allow further withdrawals beyond Rs. 10,000 a month within the current applicable limits only after ascertaining the genuineness of such withdrawals and duly documenting the same on bank's record.

The government suspects that black money hoarders are using farmers' and other people's Jan Dhan accounts to deposit their ill-gotten money so that they can safely convert that money into white.

Yesterday, Prime Minister Narendra Modi said he is working on a formula on how to send the corrupt to jail who deposited their money in Jan Dhan accounts of poor after demonetisation and ensure this money goes to the poor households.

6. RBI Governor gets Rs 2 lakh pay, no supporting staff at home

PTI

The RBI Governor Urjit Patel gets a little over Rs. 2 lakh as salary and has not been provided with any supporting staff at his residence, the central bank has said.

Patel, who took over as RBI Governor in September, is in possession of the bank's flat (Deputy Governor's flat) at Mumbai, it said.

"No supporting staff has been provided to the present Governor, Urjit Patel at his residence. Two cars and two drivers have been provided to the present Governor," RBI said in reply to an RTI query.

The bank was asked to provide details of remuneration given to former RBI Governor Raghuram Rajan and incumbent Patel.

For October — the first full month Patel was in office as Governor — Patel got Rs. 2.09 lakh as his salary, the same amount drawn by Rajan as his salary in August.

Rajan demitted office on September 4, and was given Rs. 27,933 as remuneration for four days.

Rajan assumed the charge of RBI Governor from September 5, 2013 at a monthly salary of Rs. 1.69 lakh. His salary was revised to Rs. 1.78 lakh and Rs. 1.87 lakh respectively during 2014 and March 2015. His salary was hiked to Rs. 2.09 lakh from Rs. 2.04 lakh in January this year, the RTI reply said.

Rajan was provided with three cars and four drivers. "One caretaker and nine maintenance attendants were posted as supporting staff in the bungalow provided by the bank to the former Governor Raghuram Rajan at Mumbai," RBI said.

The Centre has recently declined to share details on appointment of Patel and other candidates shortlisted for the top post in the central bank saying these are "cabinet papers" and cannot be made public.

Patel was on August 20 named as RBI's Governor to succeed Rajan.

7. Digital payments push: Single UPI platform in offing for banks

PTI

To promote digital transactions, an upgraded Unified Payments Interface for banks is in the offing that will provide a cost effective and secured option, a senior finance ministry official has said.

A single UPI platform is being developed for all banks as against the existing system of individual platform, the official said.

Currently, about 30 banks including SBI, PNB and Canara Bank have their individual platforms. The new platform would be easy to use and data secured, the official said.

With this new payment method, mobile phones will be used as virtual debit cards and a customer will be able to send or receive money instantly along with other features, the official said.

Given the high mobile phone penetration in the country and government's big push to digital banking, UPI is going to pick up traction, the official said, adding that it has a potential to provide mobile wallet players a tough competition.

Post demonetisation of high value currency notes last month, it has been noticed that more and more people have started using e-payment means including digital wallets for making payments for various transactions.

There are about 40 crore smart phones while e-wallets have risen to 23 crore in less than one and half years.

UPI is an indigenously developed platform by National Payments Corporation of India (NPCI) and set up with the support of the Reserve Bank and Indian Banks Association (IBA).

NPCI operates the Rupay payments infrastructure that, like Visa and MasterCard, allows different banks to interconnect and transfer funds domestically at the moment.

"Unlike the standard payment infrastructure, which, by and large, facilitates only the 'pushing' of transactions, UPI, with both 'push (pay)' and 'pull (collect)' facilities, is a game-changer," Anshuman Verma, founder and managing partner of M1L said.

Not only could UPI-based technology solutions help merchants reduce set-up costs at their ends, they would potentially lead to greater reduction in transaction costs for consumers, he said.

"UPI is an open and interoperable technology stack that works by allocating a unique identification or address (not bank account/card details) for each user, resulting in more secure transactions.

"The decoupling of account details with transaction process could lead to injection of more trust in digital transactions, lending higher credence to Indian digital world, in general," Verma said.

He said however that more discussions are needed about sound understanding of this unique 'techno-socioeconomic— behavioural triode'

"Clarity on this triode will play more than crucial role in arriving at the best end—point—usage of UPI's India stacks," he added.

8. In 6 days, Labour Ministry brings over 9 lakh workers into banking fold

OUR BUREAU

In line with Prime Minister Narendra Modi's call for a 'cashless economy', the Labour Ministry said it had brought over nine lakh workers into the banking fold within six days of launching a campaign on November 26. However, trade unions, such as the Centre of Indian Trade Unions (CITU), see the move as a bid to 'cover-up' the ongoing currency shortage.

"It may be noted that already 25.68 crore Jandhan accounts are existing and all the leftover workers are being covered," the Ministry said in a statement, adding that till December 1, 2016, bank accounts of 9,15,431 workers were opened by organising 33,145 camps.

'Timing' of the move

The Ministry launched the campaign for workers, especially in the unorganised sector, such as construction, beedi, scheme workers, like Anganwadi, Asha, and cine workers who still do not have bank accounts, to inculcate in them the "habit of using cashless transactions".

However, CITU General Secretary and Rajya Sabha MP, Tapan Sen, commenting on the 'timing' of the Ministry's move, said trade unions had for long been demanding payment of wages to contract workers through banks, but the "sudden initiative of the Labour Ministry to get the contract workers and workers of unorganised sector to open bank accounts and channelise the wage payment through banks is not for any financial inclusion... but to supplement the crisis management owing to shortage of currency notes in market owing to demonetisation."

Survey report

In a statement, Sen pointed out that as per the Labour Ministry's own survey report, (5th Annual Employment-Unemployment Survey-2015-16), only 17 per cent of the employed workforce are wage-earners, of which 35.15 per cent are contract and casual workers.

"57.2 per cent of wage/salaried workers earn up to ₹10,000/month and 38.5 per cent of the contract workers and 59.3 per cent casual workers earn up to ₹5,000 or less."

Wage payment

He said: "introduction of salary payments to contract and unorganised sector workers, who have been paid so long in cash, means adding more people, particularly daily wage earners in the day-long queues before banks and reducing cash flow in their hands owing to restrictions imposed on cash withdrawals and also absence in workplace."

Wage payment restricted to banks at a time of currency shortage will lead to "unimaginable sufferings and distress" of this huge workforce, he said, adding that this should be done only after covering the entire country by banking services, including rural areas where only 35-40 per cent people are banked.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**