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Dear Comrades,

7th October, 2016

News of Interest 7th Oct

QUOTE OF THE DAY

“LEARNING IS THE BEGINNING OF WEALTH. LEARNING IS THE BEGINNING OF HEALTH. LEARNING IS THE BEGINNING OF SPIRITUALITY. SEARCHING AND LEARNING IS WHERE THE MIRACLE PROCESS ALL BEGINS.” JIM ROHN

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Business Standard

1. Finance ministry doubts efficacy of a 'bad bank'

A key official argued that constitution of a new institution to deal with stressed assets would only delay the resolution of bad loans

Dilasha Seth & Indivjal Dhasmana

Amid a fresh debate on the concept of a 'bad (loans) bank' to deal with stressed assets in the banking sector, many in the finance ministry questioning if this is needed.

A key official argued that constitution of a new institution to deal with stressed assets would only delay the resolution of bad loans that has plagued state-run banks.

Besides, he said on condition of anonymity, this institution will not be doing anything fundamentally new that the government or state-owned banks are not already doing to address the issue of non-performing assets (NPAs).

"All public sector banks (PSBs) are being capitalised by the government. The so-called 'bad bank' will also work on behalf of the government. What will be there that is not already happening?" he asked.

In line with the announcements made under the 'Indradhanush' scheme and the Union Budget, the government had decided last year to recapitalise PSBs by Rs 70,000 crore over four years. In July, it allocated Rs 22,915 crore to recapitalise 13 of these, including the biggest one, State Bank of India. The sum is 92 per cent of the budget provision of Rs 25,000 crore.

The country's state owned-banks, reeling from a record level of NPAs, require additional capital to not only meet capital adequacy standards but also for the Basel-III norms, to take effect from 2018.

"Setting up a new institution could only delay the resolution process. It will require setting up a company, articles of association, picking people to run it, etc. I do not see it doing something fundamentally very different from the current set-up. If it will, we could look at that," said another official.

A 'bad bank' was proposed to take over stressed assets of PSBs, enabling these lenders to focus on normal commercial activity. Stressed assets in the banking system rose to 12 per cent of the total in June, from 11.4 per cent at the end of March. The net combined loss for the 25 listed PSBs was Rs 1,193 crore in the financial year's first quarter, ended June, against a net profit of Rs 9,449 crore in April-June 2015.

Reserve Bank of India (RBI) governor Urjit Patel, during the policy announcement earlier this week, said dealing with stressed assets needed creativity and the central bank was working with the government on this. His predecessor, Raghuram Rajan, had early this year shot down the idea of a bad bank. "PSBs themselves have the backing of the government. So, there is no need to create a new entity that has the backing of the government. The issue is now to clean it up," he'd said.

RBI launched a clean-up exercise last year, named Asset Quality Restructuring. This required banks to provision far more for their NPAs. The move severely hit their earnings. Rajan had also said the pricing of assets of a government-owned bad bank could get entangled with the Comptroller & Auditor General or the Central Vigilance Commission.

The idea of a bad bank was drawn from various countries that had set up such entities following a crisis, such as the Troubled Assets Relief Program set up by the US treasury department after the collapse of Lehman Brothers in 2008.

UNDER STRESS

- A 'bad bank' was proposed to take over stressed assets of PSBs, enabling these lenders to focus on normal commercial activity
- Officials argue that constitution of a new institution would only delay the resolution of bad loans that has plagued PSBs

- Says the so-called 'bad bank' will also work on behalf of the government. What will be there that is not already happening

2. No reason for RBI to hold back 25-bp cut over developments in US: Gita Gopinath

Interview with Professor of Economics, Harvard University

Ishan Bakshi

The elevation of Urjit Patel as Reserve Bank of India (RBI) governor was thought to represent policy continuity at RBI. But, in the very first monetary policy committee, all six members voted to cut interest rates. Further, the real interest rate target was also lowered to 1.25 per cent, from the 1.5 to two per cent range set by previous RBI Governor Raghuram Rajan. To understand the change in RBI's thinking on inflation and interest rates, *Ishan Bakshi* spoke to **Gita Gopinath**, professor of economics at Harvard University, at the India Economic Summit. Edited excerpts.

There was this view that the elevation of Urjit Patel as RBI governor represented policy continuity. But, there has been a policy departure in his first monetary policy review itself. Your views?

I would like to wait for another round of the monetary policy committee meeting before I pass judgement on whether this is a discreet shift or not. I did think the policies of Urjit Patel would be closer to those of the previous governors but, that said, I don't want to pass judgement.

Might it not have been prudent for RBI to wait for the US Federal Reserve to raise rates, look at its fallout on emerging markets and then decide on interest rates?

I don't think one needs to worry so much about holding back on a 25-basis point rate cut in expectation of what will happen in the US. But, in the long run, we will have to see how the US Fed moves. Everything right now points to a slow increase in interest rates in the US. Though that could change. But, I would not say that this (rate cut) is premature. My expectation is that as things evolve, RBI will pay attention to not only domestic events but global events as well.

There are rumours of creating a bad bank to deal with non-performing assets. Wouldn't that lead to problems of moral hazard?

Creating a bad bank would be consistent with practices around the world. The problem with banks is that you have bad assets and banks are unwilling to lend, as their balance sheet is in a bad state. At the same time, it has to be done properly. We have to make sure we are not back in the same situation again. There has to be proper regulatory oversight of this process.

In its first meeting, the newly constituted monetary policy committee has lowered the real interest rates target from 1.5-2 per cent to 1.25 per cent. What caused this change?

I would like to wait for the minutes of the monetary policy committee to see their thinking. But, it is true; globally there has been a declining trend in real interest rates.

This is tied to lower productivity growth and huge demand for safe assets. That has brought down real interest rates. But, I am not sure all those factors apply equally to India, which is why I am curious to see the specific arguments made by the committee members.

In large part, India's macroeconomic stability in recent years is largely because of the decline in oil prices and fall in gold imports. Is there any reason to worry that a sudden uptick could reverse the gains made?

That is certainly an important source of concern. India has definitely benefited in terms of macro stabilisation, with a fall in commodity prices. But, there is no expectation that commodity prices will go back up to what they were in the past. While there might be an increase, it might not happen very soon, given the projections of global growth. When it does happen, it would certainly make it harder to meet inflation targets in India.

Financial Express

3. Income tax benefits: Here's how you can give so you can get back

There are many schemes of the government which make it possible to avail income tax benefits and donations to religious and charitable institutions stand among one of them.

By: [Suraj Nangia](#)

There are many schemes of the government which make it possible to avail income tax benefits and donations to religious and charitable institutions stand among one of them.

There are provisions in the Income-Tax Act, 1961 (Act) which provide for deduction of donations from taxable income of any person including individuals, companies, firms, Associations of Persons (AOP) or even NRIs. It would be worthwhile to note some of the donations and their tax benefits.

Donation to religious/charitable institutions

Ensure that you have donated to appropriate charitable/religious institution, that is, the institution should be approved under section 80G of the Act. Typically, such institutions display their 80G-status prominently on their websites as well as their receipts. It needs to be ensured that the registration certificate issued to the institution or approved trust has not been revoked by the government. It is pertinent to note that if the registration granted to any institution(s) prescribed therein stands withdrawn subsequent to the donation made, the person making donation shall not be debarred from claiming tax benefit under section 80G of the Act.

The Prime Minister's National Relief Fund, approved universities/education institutions, any notified temple, mosque, etc., are some of the institutions/trusts prescribed under section 80G. The amount of deduction will be either 100% or 50% (which could be further restricted to 10% of gross taxable income before deducting donation) of the qualifying amount of the donation, depending on the fund/institution to which donation is made.

However, donation in kind, such as donation of clothes, blankets, food, medicines and other things of utility are not eligible for claiming tax benefit under section 80G of the Act. Also, no deduction can be claimed in respect of donation of an amount exceeding R10,000 unless such sum is paid by any mode other than cash.

Documentation is important

In order to avail tax benefit, the documents evidencing the donation made should be carefully maintained. Further, in case of a scrutiny assessment by the tax department, re-production of such documents shall be vital to substantiate the claim of deduction from total income. The receipt must include the following details: Name and address of the trust, name of the donor, amount donated mentioned in both words and figures, registration number of the trust as given by the income tax department under section 80G, along with its validity period.

Making a donation for charity, social or philanthropic purposes, or towards a National Relief Fund shall fulfil your desire to be a socially responsible citizen and at the same time reduce your tax outgo.

The writer is partner, Nangia & Co.

4. RBI official lambasts wallet players on KYC norms

A senior Reserve Bank official today lambasted prepaid payment instrument (PPI) providers for laxity in meeting KYC norms, saying it is leading to opacity in the movement of funds.

By: PTI

A senior Reserve Bank official today lambasted prepaid payment instrument (PPI) providers for laxity in meeting KYC norms, saying it is leading to opacity in the movement of funds.

PPIs are creating wallets "automatically" without proper consent from customers, said Nanda Dave, chief general manager overseeing the payments and settlement systems at the central bank.

Dave was speaking at a Payment Council of India event here.

A majority of players in the segment use the 'minimum details' or the 'no-KYC' (know your customer) wallet while onboarding a customer, she said.

"The customer is being identified by his or her mobile number, period. And such wallets have been used for routing money which has been fraudulently taken from bank accounts," the RBI official said.

She wondered whether a "conduit" is being provided by not having necessary details of the end use of funds. "When we have no details of customers with us, it is very difficult to even trace where that money has gone," she said.

It can be noted that following repeated terror attacks across the world, regulators have increased KYC requirements to trace both the source and end use of funds.

Banks are routinely fined for overlooking such critical aspects.

Dave, however, admitted that PPIs are "subject to very light regulations" with low entry barriers which have seen "mushrooming" of many entities.

Flagging protection from frauds and monitoring as an issue, Dave said the RBI's "suasion" has not worked.

"We may...be forced then to come out with rules and guidelines," she said.

She also came down heavily on PPIs for targeting the same affluent class, which does not help the agenda of getting more people into the formal financial system.

"Are we all following the same customers or are we bringing unique, new customers onto our platforms or services? It appears that more and more

players are targeting customers who are already aware of banks or have some choices," she said.

Terming "financial inclusion" as a "magical" word, Dave said it facilitates players to cater to many segments.

She also made the RBI's displeasure public on PPIs being used only for jobs like remittances and recharges and not for merchant purchases as much.

The central bank also has concerns over outsourcing of back-end work to a select few parties and also mis-selling by PPIs, she said.

The RBI has stopped issuing licences to new PPIs after its disappointment with the existing ones for lack of differentiation, she said.

"In the past few years, we have 50-odd non-banks and equal number of banks issuing wallets. You can't differentiate one from the other. Some will advertise more, some will give discounts, but very few have brought in innovative ways to reach to customers," she said, adding a review on it is underway.

Dave, however, affirmed that the RBI is committed to ensuring that the industry grows.

5. UCO Bank to raise Rs 270 crore via share sale to LIC

State-owned UCO Bank today said it will sell 7.17 crore shares to LIC on a preferential basis, which may fetch about Rs 270 crore to the bank.

By: PTI

State-owned UCO Bank today said it will sell 7.17 crore shares to LIC on a preferential basis, which may fetch about Rs 270 crore to the bank.

The board of the bank at its meeting has approved a proposal for issue of 7.17 crore shares of Rs 10 each to Life Insurance Corporation of India (LIC) on a preferential basis at a price to be determined in accordance with Sebi regulation, UCO Bank said in a statement.

With the preferential share allotment, LIC stake in the bank will increase by 5.5 per cent.

Currently, insurance companies, including LIC, holds 12.02 per cent stake in the bank.

At today's market price, the bank will raise about Rs 270 crore by the share allotment. on preferential basis to LIC.

The stock of the bank was trading at Rs 37.50, down 1.06 per cent, on BSE.

6. RBI issues operational guidelines for Payment, Small Finance Banks

MFIs and NBFCs that have obtained permission to set up small finance banks should be given three years to close or convert their existing branches into banking outlets to facilitate an orderly transformation, an RBI panel suggested today.

By: PTI |

RBI today came out with operating guidelines for differentiated banks — payments banks and small finance banks — being set up to bring in new players who would leverage on technology for financial inclusion in a cost effective manner.

RBI granted in-principle approvals to 11 entities for setting up payments banks (PBs) in August 2015 and 10 for Small Finance Bank (SFB) in September 2015. As per the guidelines, PBs can accept deposit only up to Rs 1 lakh. Small Finance Banks will have to follow norms relating to minimum balance, inoperative accounts, nominations, and cheques/drafts.

PBs will have to maintain a minimum investment to the extent of not less than 75 per cent of 'demand deposit balances' as on three working days prior to that day, in Government securities/Treasury Bills with maturity up to one year that are recognised by RBI as eligible securities for maintenance of Statutory Liquidity Ratio (SLR).

SFBs may issue passbooks for the deposit accounts, while payments banks need not issue passbooks for the deposit accounts. PBs, however may provide statement of account in paper form on request on chargeable basis.

PBs and SFBs can engage all permitted entities including the companies owned by their business partners and own group companies on an arm's length basis as Banking Correspondents'. The capital adequacy framework is same for both type of banks — Minimum Capital Requirement (15 per cent) and Common Equity Tier 1 (6 per cent).

For product approval, PBs at the time of submitting application for licence should submit to RBI a list of financial products they intend to offer with a clear description. Any new products to be introduced thereafter should be intimated to RBI for information.

RBI also said that SFBs will not be permitted to undertake any para-banking activity except that allowed as per the Licensing Guidelines and the related FAQs issued.

Further, SFBs will be permitted to use Interest Rate Futures (IRF) for the purpose of proprietary hedging. As regards the foreign exchange business, SFBs would be permitted to use derivatives for proprietary hedging only.

RBI gave licence for SFBs and PBs to further financial inclusion. Their client base would primarily be migrant labour workforce, small businesses, and unorganised sector entities.

Among others, Ujjivan Financial Services, Janalakshmi Financial Services, Au Financiers (India), Capital Local Area Bank Ltd, and Utkarsh Micro Finance, have got in-principle licences to open small finance banks.

RBI has granted 'in-principle' approval to Reliance Industries, Aditya Birla Nuvo, Vodafone, Airtel and India Post, among others

7. RBI suggests wider definition of banking outlet

OUR BUREAU

The Reserve Bank of India proposes to give a breather to banks, especially small finance banks, by bringing all places of their business, including extension counters, satellite offices, ultra small branches, fixed point business

correspondent outlets, and manned ATMs, within the definition of a banking outlet to help them fulfil the criteria of opening 25 per cent branches in un-banked rural centres.

In light of the rapid developments in technology and the advent of differentiated banks — small finance banks and payments banks — the RBI said it is necessary to redefine branches and permissible methods of outreach keeping in mind the various attributes of banks and types of services that are sought to be provided. An RBI internal working group on rationalisation of branch authorisation policy has recommended that all domestic scheduled commercial banks (DSCBs) be advised to open at least 25 per cent of their 'total banking outlets' (as per the expanded definition) opened during a year in un-banked rural centres (URCs).

A 'part-time banking outlet', opened in any centre, will be counted and added to the denominator as well as numerator on pro-rata basis for computing the requirement as well as compliance with the norm of opening 25 per cent banking outlets in URCs.

A part-time banking outlet is a fixed point service delivery unit of the bank, which does not comply with the 'banking outlet' norm regarding minimum four working hours per day for at least five days a week.

Flagging concerns

The proposed expansion of the definition of banking outlet is in view of non-banking finance companies/micro-finance institutions, which are converting to small finance banks, flagging concerns on the requirement of meeting the 25 per cent norm of opening branches in URCs within a year of their commencement of operations.

The Group, headed by Lily Vadera, Chief General Manager, RBI, recommended that opening of a 'banking outlet/part-time banking outlet in any centre in the North-Eastern States and Sikkim as well as in any of the 106 left-wing extremism (LWE) affected districts in 10 States, notified by the Government of India, may be considered as equivalent to opening a banking outlet/part-time banking outlet in a URC.

Banks, according to the Group, may be allowed the benefit of the 'banking outlets', if any, opened in the URCs/N-E States, Sikkim and LWE affected districts, in excess of 25 per cent of the total 'banking outlets' during a year which may be allowed to be carried forward for a maximum period of two years

The Group suggested that the current prescription of branches in Tier I centres not to exceed branches in Tier II to VI centres may be removed.

As a corollary, it has also been recommended that the incentive of allowing Tier I centres for opening the branches in under-banked districts of under-banked States be withdrawn.

In view of the constraints expressed by small finance banks relating to closing/conversion of their existing large network of branches focussed on asset servicing or complying with 25 per cent norm of opening branches in URCs within a year, the Group felt that the regulatory framework needs to provide an enabling environment to preserve the advantages of the MFI/NBFC structure of these entities with a view to further financial inclusion.

"...they may be given a reasonable time period of three years to close or convert all their existing branches into 'banking outlets'...Till such time the existing structures may continue and would be treated as 'banking outlets' though not immediately, reckoning for the 25 per cent norm.

"Thus, at the end of three years, all SFBs should have opened 25 per cent of their total banking outlets in URCs, failing which appropriate restrictive measures on further branch expansion by such banks will be considered and imposed, as deemed appropriate," said the Group.

Banked, un-banked centres

According to the RBI, the total number of banked and un-banked centres (where no physical brick and mortar branch of a bank is present) as on December 31, 2015, stood at 49,686 and 555,782, respectively.

This data does not include the banking services rendered through other modes, such as satellite offices, extension counters, mobile branches or the presence of business correspondents which have significant outreach.

If the Pradhan Mantri Jan Dhan Yojana data on bank mitras (BC outlets) at 1.25 lakh is taken into account for defining a 'banked' centre, the number of un-banked centres comes down to about 4.25 lakh — which is still a very large number.

8. RBI eases operating norms for payments banks

OUR BUREAU

Reserve Bank of India, in its operating guidelines for payments banks (PBs), said it will have no objection to these banks making arrangements with any other scheduled commercial bank/small finance bank, whereby amounts in excess of the prescribed limit of ₹1 lakh is swept into an account opened for the customer with the latter.

This arrangement should be activated with the prior written consent of the customer, the central bank said.

According to RBI directions, PBs can accept only savings and current deposits. The aggregate limit per customer cannot exceed ₹1 lakh, as provided in the Licensing Guidelines.

The prescribed limit will apply to customer deposits and not to any security/earnest money deposit the bank may collect from any of its service providers in the ordinary course of business.

According to the operating guidelines, PBs need not issue passbooks for deposit accounts. They may provide a statement of account in paper form on request on chargeable basis, or otherwise.

Account information

PBs may provide account information through multiple user-friendly modes, such as SMS and/or internet banking, and they should provide electronic confirmation through SMS/e-mail/printed proof for each account transaction.

The RBI said the annual plans for opening of physical access points by the PBs for the initial five years would need its prior approval. The first of such plans should be submitted to the RBI before commencement of business. After the initial stabilisation period of five years, and after a review, the RBI may liberalise the requirement of prior approval.

An employee of the PB should be available for sufficient duration, at a fixed location known to the customers at the district level, to attend to customer grievances and support the agent supervision.

This fixed location may also be used to conduct the banking business of the PB, and it will be considered as a physical access point for the purpose of assessing the requirement of opening at least 25 per cent physical access points in rural centres.

The PBs will be exempted from the requirement of having a base branch for a certain number of business correspondents (BCs)/access points managed by BCs as currently stipulated in the RBI guidelines to scheduled commercial banks.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY