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Dear Comrades, **8th September , 2016**

News of Interest 8th Sep

QUOTE OF THE DAY

"THE GOOD LIFE IS ONE INSPIRED BY LOVE AND GUIDED BY KNOWLEDGE."

BERTRAND RUSSELL

HIGHLIGHTS

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Business standard

1. Patel gets down to business on Day One

Upon Patel's elevation, the portfolios of the three deputy governors were rejigged

Anup Roy

Urjit Patel on Tuesday formally took over as the 24th governor of the Reserve Bank of India (RBI) from Raghuram Rajan, after signing the ceremonial scroll of the central bank's board.

Patel's appointment was effective September 4, but the scroll signing ceremony had to be delayed till Tuesday as the central bank was closed on Sunday and Monday.

Upon Patel's elevation, the portfolios of the three deputy governors were rejigged. Most of the departments that Patel used to handle, including the critical monetary policy department, forecasting and modeling unit, department of economic policy & research, and financial markets regulation department, market intelligence, were handed over to R Gandhi. S S Mudra and N S Vishwanathan also got charge of three additional departments.

Therefore, the three members from the RBI in the six-member monetary policy committee would be RBI governor Patel, deputy governor R. Gandhi and executive director Michael Patra, whose inclusion in MPC was earlier announced by RBI. The rest three members in the committee will be government appointed.

RBI on Tuesday announced Rs 10,000-crore bond purchase from the secondary market. Patel was the key architect of a new liquidity framework that promises to keep banking sector liquidity in neutral mode.

However, the new governor didn't meet the press. RBI emailed a photo of the signing ceremony, where a souvenir with rupee sign could be seen, which presumably was given by the former governor to the new one.

Patel moved to the corner room at the 18th floor in the morning and according to sources, soon after assuming charge, Patel went about business. He was to attend a meeting of senior executives but the meeting had to be postponed for some reasons. But there was no special ceremony at the central bank. However, photographers standing outside the RBI premises to catch a glimpse of Patel or Rajan managed to notice Patel's mother entering the RBI premises in a car for her son's big day.

This is in stark contrast to Raghuram Rajan's first day in office where the governor announced a slew of measures to assuage the market that the central bank was on top of things and there should be no reason to panic. Rupee stabilized after those announcements and strengthened considerably in the coming days.

However, the situation now is also different. Patel takes over at a time when the markets are calm, rupee is stable, bond yields low and foreign exchange reserves aplenty.

Rupee closed at 66.52 a dollar, the 10-year benchmark bond yield closed at 7.096 per cent on Tuesday, from their Friday's close of 66.83 a dollar and 7.118 per cent level.

However, the apparent calm in the market could be misleading as the new governor may have to be more vocal in his communication with the market.

The first challenge for the new governor will come up soon when about $26 billion of foreign currency non-resident (FCNR) deposits come up for maturity between this month and November. The central bank has already guided that the resultant dollar outflow could create temporary liquidity crisis in the market. Given that the central bank has built up a formidable reserve and solid long position at the forwards market, the redemption per se won't be a problem. But there could be a short term blip, which the new governor should talk down in the market.

Besides, Patel, the architect behind the monetary policy committee that would target inflation at 4 per cent with a band of 2 per cent, would have to be vigilant about the rising inflation. Led by food prices and rising oil prices, inflation for July crossed 6 per cent, much higher than RBI's target range. But the central bank expects the August number to be soft and in any case, the target of bringing down inflation to 5 per cent by March 2017 should be achievable. However, if inflation continues to remain high, it would seriously jeopardize RBI's efforts to contain inflation within the target range.

Also, Rajan was criticized by some for not reducing rates enough. The new governor may have to cut rates sharply to let growth take place in a broad-based manner. Certainly, this is what the government and the industries want. But Patel's appointment means continuation of RBI's hawkish stance. It would be interesting to see how the new governor balances industry expectations with his target of containing inflation. Besides, the new governor will have to continue with banks' asset quality review even as the gross bad debt has neared Rs 6 lakh core at the end of fiscal 2015-16.

2. IDFC Bank for acquisitions & fintech tie-ups to grow retail book

Bank will not focus on niche platforms focused on high-end customers, but on those that bring to it mass and mass-affluent customers

Nupur Anand

IDFC Bank, the newest lender in the country, is looking at an aggressive campaign to get individual depositors and lenders.

"We are definitely looking at more acquisitions and inorganic opportunities of adding to our customer base," said Rajiv Lall, managing director.

He said the broad goal was to build a mass retail (meaning mass-market) bank. "So, we will certainly not be looking at niche platforms that are focused on high-end customers. Instead, we will look at platforms or companies that bring to us mass and mass-affluent customers." In June, the bank had acquired South India-based Grama Vidiyal Microfinance, for an undisclosed amount. The latter is the country's fifth-largest micro finance institution, with 1.2 million customers.

Lall, said such steps would help meet their priority sector lending requirement, a challenge. Every bank is supposed to lend at least 40 per cent of its total advances to sectors identified as priority, such as agriculture, education, housing and so on. If a bank is unable to meet this, the money goes into the low-yielding Rural Infrastructure Development Fund.

IDFC Bank is also looking at tying up with several financial technology entities. It is in the process of signing a deal with a digital lending company that is focused on MSME. It aims to close tie-ups with at least three fintech entities by end-December. Lall calls this "radical partnering".

"They are doing some cutting-edge technology in originating customers that are new to credit, rural banking and previously under banked but still creditworthy, by using new underwriting methodologies, data and technology practices. I would like to partner much more aggressively with this eco-system," he said.

He said they were talking to about half a dozen companies in the personal lending space and in those for MSMEs. He says he aims to be in a conversation with 20-30 such companies.

The lender was a part of the Dilip Shanghvi-led consortium that had surrendered the in-principle licence given to them by RBI for a payments bank. This would have had helped it make inroads in rural areas. Instead, the bank will need to look at more partnerships and acquisitions to expand its retail base.

3. YES Bank launches $1 bn QIP

Price band for the shares, to be placed with institutional investors, is Rs 1,350-1,410 each

Abhijit Lele

YES Bank flagged off a Qualified Institutional Placement issue of new shares, to raise up to $1 billion (Rs 6,600 core), with the aim of supporting its growth for the next three years.

The price band for the shares, to be placed with institutional investors, is Rs 1,350-1,410 each. The face value of each share is Rs 10.
YES' shares on the BSE exchange closed 2.5 per cent lower on Wednesday, at Rs 1,405.

The private lender will use the proceeds for capital requirement under the Basel-III norms, beside expansion. This includes enhancing the solvency and capital adequacy ratios. The latter was 15.5 per cent at end-June, with tier-I capital of 10.3 per cent.

It had a 32.8 per cent rise in net profit to Rs 731.8 core during the June quarter, the first one in this financial year.

Financial express

4. RBI wants GTL forensic audit over Rs 2,650 cr dues before OTS OK

The Reserve Bank of India (RBI) has asked lenders to GTL to conduct a forensic audit of the company’s accounts before approving a one-time-settlement (OTS) scheme, two bankers confirmed to FE.

By: FE Bureau

The Reserve Bank of India (RBI) has asked lenders to GTL to conduct a forensic audit of the company’s accounts before approving a one-time-settlement (OTS) scheme, two bankers confirmed to FE. They added the process had been initiated, reports Shayan Ghosh in Mumbai. Bankers have been exploring the option of negotiating a one-time settlement for the dues of the Manoj Tirodkar-promoted firm which, at the end of March 2015, amounted to Rs 2,650 crore, according to Bloomberg data.

In April, GTL had said in a statement that over the past five years it had paid more than Rs 1,400 core to banks from its internal resources without any fresh borrowings. “GTL Limited continues to engage with its lenders in identifying opportunities to monetise its businesses and non-core assets in its goal to further reduce/repay debt which cumulatively will mean a payment of Rs 4,000 core to banks,” it had said.

According to two people aware of the RBI instruction, the Central Bureau of Investigation had written to lenders seeking details of the OTS scheme, which banks have already replied to. The agency is also understood to have written to the finance ministry about the company, which in turn sought the intervention of the central bank.

"A CA (chartered account) firm has been appointed and is looking into the books of GTL. The promoters are cooperating with the auditors," a senior banker said. Lenders to GTL include Bank of Baroda, Punjab National Bank, IDBI Bank and Bank of India, among others. While a couple of lenders have approved the settlement, the rest are yet to take a decision.

In response to a query, GTL said on Wednesday that any "purported" instructions to banks to conduct forensic audits on viable borrowers are only a step in the correct direction. "Any such audit can only be seen as a means to ensure that suitable and eligible borrowers such as our selves access the above mentioned restructuring programs and instances of malfeasance are appropriately eliminated," the company said.

According to GTL, to the best of its knowledge, RBI has issued instructions to banks to conduct audits in all cases of borrowers having an exposure over Rs 500 crore and where there is a proposal to settle the dues of the banks and apparently, such audits are currently being undertaken for over 97 companies.

Forensic audits are aimed at evaluating a firm's financial information in order to probe alleged fraud, embezzlement or other financial claims. In April, FE had reported that the company was negotiating an OTS with lenders by which it will repay 60% of the outstanding debt.

The company reported a net loss of Rs 2,933 crore on the back of Rs 1,707 crore in revenues in FY16. As of March 2016, Global Holding Corporation owned 32.41% of the company, followed by Manoj Tirodkar at 11.82% while 21 banks collectively own 24.61%.

According to a Bloomberg report dated January 25, 2103, "GTL Infrastructure amassed 108 billion rupees in debt by end of March, partly a result of its 80.3 billion rupees acquisition of mobile phone transmission towers in 2010, according to company filings. GTL's debt stood at 43.3 billion rupees at the end of March, its filings show."

Standard Chartered Bank, Mauritius, one of the unsecured creditors to GTL, had filed a legal case against the company seeking pari passu status in terms of sharing of security and cash flow with other lenders under a corporate debt restructuring (CDR). However, as per the CDR terms, CDR lenders cannot offer preferential treatment to certain lenders ahead of other lenders.

In its FY16 annual report, the company said that three sets of lenders — CDR, ECB and NCD holder — considered the OTS proposal in various meetings and as a culmination of such discussions, all the above lenders have agreed in-principle to consider the OTS proposal and the sharing ratio as decided by the lenders.

GTL, part the Global Group, provides network services to telecom operators, OEMs and tower companies. The company's CDR package was approved by lenders in December 2011.

5. India not ready to privatise public sector banks: Finance Minister Arun Jaitley

India has not reached the point where it can consider selling majority stakes in the public sector banks that control seven tenths of assets in the financial system, Finance Minister Arun Jaitley said on Wednesday**.**

By: Reuters

India has not reached the point where it can consider selling majority stakes in the public sector banks that control seven tenths of assets in the financial system, Finance Minister Arun Jaitley said on Wednesday.

"I don't think that public or political opinion has converged to the point where we can think of privatisation in the banking sector," Jaitley told the Economist India Summit in New Delhi.

The government is consolidating some of the public sector banks to strengthen them, but does not plan to reduce the state's share below a threshold of 52 percent, Jaitley said in a podium interview.

Business Line

6. **Banks' boards should be tough on KYC compliance, embrace tech: SS Mundra**

OUR BUREAU

Lack of Board-level oversight and commitment from executive managements have led to several instances of banks allowing transactions in their customers' accounts, without due consideration to their declared business profiles in recent times, according to RBI Deputy Governor SS Mundra.

While regulations on Know Your Customer (KYC)/Anti-Money Laundering (AML) are robust across jurisdictions, the RBI, however, has often found banks not having robust systems to comply with regulations.

"At the time of on-boarding of customers, banks are required to assess them, their business and expected turnover in their account, source of such transactions, etc.

"In recent times, we have come across several instances of banks having allowed transactions in their customers' accounts without due consideration to their declared business profiles," said Mundra at the International Seminar on Cyber Risk and Mitigation for Banks, organized by the CAFRAL in Mumbai.

He observed that the accounts received multiple RTGS (real time gross settlement)/ NEFT (national electronic funds transfer) inward transactions and several such remittances were sent out of these accounts as well. Several accounts were abused to send money abroad in the form of advance import remittances.

"Despite the disproportionate activity in such accounts, the monitoring mechanism of banks fell short of expectations. I wonder why banks are not able to devise fool-proof technology-based solutions to identify such transgressions.

"As you may be aware, the RBI had to impose penalties on 13 banks for non-compliance with extant KYC/AML instructions, including failure to categories their customers in line with their risk profiles," said Mundra.

Identification of NPAs

When it comes to the process of system-based identification of non-performing assets (NPAs), the Deputy Governor felt that there is much scope for improvement in this area.

"While we appreciate that banks use multiple systems, the rules are elaborate and at times qualitative, thus posing challenges to capture the parameters in computer systems. However, with the progress in technology, this problem should have been solved much earlier.

"What we expect is a robust system-based identification of NPAs, not only for the regulator's use but also for the banks' internal use so as to facilitate timely recovery/resolution," Mundra said.

The central bank, according to the Deputy Governor, expects the Board of Directors of banks to get actively involved in technology-related aspects. IT strategy needs to be closely aligned with the business strategy.

"With strides in technology, it will be difficult for Boards that do not have members having expertise in technology-related areas to effectively adopt the technologies.

"Technology risk, including cyber-risk, is to be treated just like any other inherent risks faced by the banks – credit, market, operational risks – and thus, the Boards need to articulate what their risk appetite is, which residual risks they would like to carry out, and what kind of mitigation strategy would they like to follow," said Mundra.

He cautioned that cyber criminals were increasingly exploiting vulnerabilities in smartphone software's by infecting operating systems with malware. The banks, which are big on mobile banking as a service delivery tool, must also look to guard against this emerging risk.

7. China's four national banks cut thousands of jobs

PTI

China's biggest state-owned banks retrenched thousands of staff members as the country's banking industry faced its most challenging year amid a slowdown in the world's second biggest economy.

The top four national banks, which reported negative to flat net profit growth for the first half of this year, reported a combined total of 22,260 jobs that have been eliminated, Hong Kong-based South China Morning Post recorded.

Banking sector

The redundancies are a cause of major concern because total staff employed by the banking sector was reached a peak of 1.87 million at the end of 2015.

Many banks have been easing staff under different categories terming retrenchments as human resources reform Bank of China said its headcount at the end of June 2016 has decreased by 6,881 to a total of 303,161 employees, compared to the end of 2015.

Agricultural Bank of China lost 4,023 staff, bringing its total to 499,059 while Industrial and Commercial Bank of China cut back by 7,635 to 458,711. China Construction Bank also shed 6,721 staff to 362,462. The four banks are the nation's biggest banking sector employers.

China's banking industry is one sector bearing the brunt of the country's economic slowdown, which has resulted in profits at major lenders slowing and the bad loan ratio climbing.

Unofficial media reports said Chinese banks' profits slid 3.5 per cent on the year. In the first three quarters last year, China's big four state-owned banks all reported profit growth below one per cent, according to a report by state-run *Xinhua* news agency.

As the economic slowdown continued, China has already announced that its plans to cut over-capacity in the steel and coal production could result in 1.8 million job losses.

The 2.3 million strong Chinese military too is set to retrench three lakh personnel by next year.

The trend is mirrored in the second-tier joint stock banking sector, the Post report said.

8. SBI, Tata to make loans easier for homebuyers

OUR BUREAU

State Bank of India and Tata Housing Development Company have entered into a partnership to enable easier financing and purchase of homes by the middle class.

Under this partnership, initially, government employees and defence personnel having SBI salary accounts will get 'offers' on Tata Housing Homes should they avail an SBI Home Loan for the same. The offers will later be extended to other customers.

An MoU for undertaking joint initiatives was signed by Rajnish Kumar, Managing Director of SBI and Brotin Banerjee, MD and CEO, Tata Housing.

A senior SBI official said under the MOU, which is valid for three years, the two partners will roll out multiple offers.

SBI in a statement said: "With positive sentiments in the market and special incentives from both organisations, this collaboration is opportune and will enable more Indians in fulfilling their dream of owning a home.

"The collaboration will facilitate the large Indian middle class to be able to realise the most important goal of owning a house."

India's largest bank reported a 21 per cent year-on-year growth in home loans to □1, 97,575 crore as at June-end 2016. According to the bank, it has a 25.55 per cent market share in home loans.

Tata Housing is a closely held public limited company and a subsidiary of Tata Sons. Its primary business is development of properties in residential, commercial and retail sectors.

According to the company, it has a diversified portfolio of more than 70 million sq ft under various stages of development. Besides projects under execution, there is a steady pipeline of projects of over 19 million sq ft.

9. Online hiring activity sees 17% jump in August

PTI

Online recruitment activity in August registered a growth of 17 per cent over the corresponding period last year led by robust hiring in education and banking sectors, says a Monster India report.

The Monster Employment Index India for the month of August stood at 244, registering a jump of 17 per cent over the corresponding period last year when the index stood at 208.

There was a slump in usual employment generating sectors, like IT and production & manufacturing, but sectors like banking & finance and education managed to keep the hiring scene buzzing.

The banking and finance sector (BFSI), which is currently undergoing series of reforms, has shown a positive online hiring trend this month with a year-on-year growth figure of 30 per cent. Education sector continues to chart a long-term growth owing to special impetus by the government since the budget of 2016. "On going digitisation in the banking sector and consolidation in the insurance sector has significantly contributed towards job creations for the skilled talent," Sanjay Modi, Managing Director, Monster.com, APAC & Middle-East said.

Modi further noted that among sectors, production and manufacturing recorded the steepest year-on-year decline of 14 per cent.

At the occupational level, online demand for customer services professionals and healthcare professionals suggested improved growth numbers of 46 per cent and 38 per cent respectively.

City-wise data paints a positive picture for tier-II cities with Chandigarh (up by 36 per cent), Jaipur (up by 34 per cent) and Coimbatore (up by 29 per cent) show an uptrend in the YoY growth chart. "Tier—II markets continue to outperform the metros. Chandigarh, Jaipur and Coimbatore are leading with impressive growth figures of 36 per cent, 34 per cent and 29 per cent respectively, whereas metros like Delhi (up by 15 per cent), Bengaluru (up by 26 per cent), and Chennai (up by 15 per cent), have shown the lowest growth this month," Modi said.

With kind regards,

Yours Comradely,

(N. GOVINDRAJULU)
GENERAL SECRETARY