



**ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION**  
(Affiliated to All India Bank Pensioners & Retirees Confederation – AIBPARC)  
163/4, Kutchery Road, Mylapore, Chennai - 600004  
E mail i.d: [aiubparf@gmail.com](mailto:aiubparf@gmail.com)/ [ubioatnng@gmail.com](mailto:ubioatnng@gmail.com)/ [suryanarayananram@gmail.com](mailto:suryanarayananram@gmail.com)

**Com. P.B. Thomas**  
Chairman  
Thiruvananthapuram  
M: 09447177456

**Com. Nitin Desai**  
President  
Ahmedabad  
M: 097277 60641

**Com. S. Bagchi**  
Working President  
Kolkata  
M: 0983081586

**Com. N. Govindarajulu**  
General Secretary  
Chennai  
M: 09841089111

Dear Comrades,

9<sup>th</sup> December , 2016

News of Interest 9th Dec

**QUOTE FOR THE DAY**

“MOTIVATION WILL ALMOST ALWAYS BEAT MERE TALENT.”

NORMAN RALPH AUGUSTINE

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Business Standard

**1. Banks slash funding to MFIs**

Banks are even holding back on sanctioned lines of credit to micro finance institutions  
Namrata Acharya

Even as the micro finance sector struggles with an acute cash crunch on account of demonetisation, banks have also partially choked fresh funding to it.

No new loans, say sources in the sector, have been issued over the past month. Banks are even holding back on sanctioned lines of credit to micro finance institutions (MFIs).

"MFIs are disbursing money from collections to keep the business going," said Ratna Vishwanathan, chief executive at the Micro Finance Institutions Network (MFIN).

Disbursements have reduced by 50 per cent in the past month. Loan recovery is down from around 99 per cent before demonetisation to 60-70 per cent. Rumours of debt waivers have further impacted the recovery.

And, with MFIs at risk of defaulting on bank loans, their credit ratings have also come under watch. Recently, rating agency ICRA put three MFIs -- Cashpor Micro Credit, Sambandh Finserve and SV Credit Line -- on a watch list, citing negative implications of demonetisation.

While individuals are allowed to withdraw Rs 24,000 a week from banks, institutions are allowed to withdraw no more than Rs 50,000 a week.

"We have got sanctioned pipelines of about Rs 500 crore from banks. We are not able to disburse much but this is being used to replay our earlier loans, so that our credit ratings are not impacted. A lot of rumour about debt waiver has further impacted recovery," said H P Singh, founder and managing director of Satin Creditcare.

"Public sector banks have been helpful. They have been honouring their sanctions. Some private banks have been holding the line of credit and seeking more details on disbursements and recovery," said Manoj Nambiar, managing director, Arohan Microfinance.

"Banks are waiting for the situation to improve. Our broad focus has been to use the recovered money for disbursal. Fresh disbursals are down by almost 50 per cent," said R Baskar Babu, chief executive, Suryoday Micro Finance.

In recent months, MFIs had seen a brisk rise in debt funding from banks, as the sector had seen healthy growth in the past year. In the June quarter, says MFIN, total debt funding for MFIs was Rs 8,384 crore, against Rs 3,732 crore in the same period a year before. And, the aggregate loan portfolio was Rs 60,165 crore, higher by 89 per cent.

## **2. RBI may cut rates by up to 50 bps next year: Report**

On Wednesday, it surprised many with a status quo on policy, premised on upside risk to Q4 inflation and limited transient growth drag owing to demonetisation

Press Trust of India

The rate cut cycle may not be over, and the Reserve Bank of India (RBI) may go for a 25-50 bps cut in the calendar year 2017, as the underlying disinflationary forces are expected to continue next year, says a report.

RBI surprised many with a status quo on policy, premised on upside risk to January-March quarter inflation and limited transient growth drag owing to demonetisation.

According to Kotak Institutional Equities, "The tone was hawkish and we do not rule out another status quo in February, albeit contingent on the CSO advance estimate of FY17 GVA (gross value added)."

If the CSO's advance estimates of GVA indicate a significant slippage in the third

quarter (October-December) of FY17 growth compared to RBI's estimate, "RBI may favour a cut in February", the report said.

On December 7, the RBI kept interest rate unchanged despite calls for lowering it while it slashed the economic growth projection by half a per cent to 7.1 in the first policy review post demonetisation.

Even as the RBI sharply lowered its real GVA forecast for FY17 by 50 bps to 7.1 per cent, it noted that the revision is largely owing to the downside surprise in the second quarter of FY17.

According to the RBI's assessment, the negative impact of demonetisation on growth would be to the tune of around 15 bps and is likely to be transitory.

However, according to Kotak Institutional Equities' assessment, based on estimated sectoral cash dependency, the impact on growth is likely to be "much higher".

"While we do see medium-term economic gains, the short-term disruption could slow FY2017 real GVA growth at 6.4 per cent," the report said.

On prices, the report said that while the January-March inflation target of 5 per cent being comfortably met, inflation is likely to inch lower as we go into FY18 (averaging around 4.2-4.3 per cent).

This should keep the RBI's stance accommodative, with the case for further 25-50 bps cut possible in CY17.

The next monetary policy meet is on February 8.

### **3. Coming soon: No cheques without Aadhaar details**

The move resonates with the Central government's plan to link all bank transactions with Aadhaar card

[BS WebTeam](#) |

Banks may make it mandatory for customers to mention the recipient's Aadhaar details while carrying out cheque transactions, reported the Deccan Chronicle on Thursday.

According to the DC report, some banks, including Bank of India, have already introduced the provision to write the Aadhaar number of the recipient on cheques. This, however, remains optional for now.

The move, however, resonates with the Central government's plan to link all bank transactions with Aadhaar card.

An Aadhaar card, issued by the Unique Identification Authority of India (UIDAI), serves as a proof of identity and address across India.

An Aadhaar number is a 12-digit unique identification number that stores demographic and biometric information of the card holder.

Aadhaar-linked unified payments interface (UPI) will enable an individual to carry out transactions, including making payments and transferring funds using a single platform.

According to a report in Mint, there are around 30 banks, including SBI, PNB and Canara Bank, which use individual platforms. Many say that a single platform will be easier to use and more secure, the report added.

Online transactions can otherwise be carried out by using debit or credit cards, besides making payments through net banking and e-wallet services.

Times of India

#### **4. Cash still less, govt hands out sops for going cashless**

TNN

A month after demonetisation, the government unveiled a slew of incentives on Thursday to promote cashless payments for fuel, insurance, toll and rail travel. In a move aimed at stepping up use of digital gateways, service tax charged on digital transactions and merchant discount rates up to Rs 2,000 per transaction was scrapped.

Use of old notes was further curtailed - old Rs 500 notes will not be accepted at railway counters from Saturday.

The 11 steps announced by finance minister Arun Jaitley are seen as a bid to push a cashless economy and retain public support as ATM queues continue, with RBI releasing currency at a calibrated pace and limited cash reaching banks. The government has said its November 8 decision to scrap Rs 500 and Rs 1,000 notes is a major step to fight black money and fake currency. Since then, the government has offered a tax penalty to those who declare unaccounted cash and has said promotion of digital payments will reduce the need to replace all the cash that has been scrapped.

State-run fuel companies will offer a discount of 0.75% to consumers when they buy petrol and diesel using debit or credit cards and other digital methods. This means that if you spend Rs 4,000 to buy petrol and diesel in a month, you can save Rs 30 and reduce the outgo to Rs 3,970 by swiping your debit and credit cards or use any other digital payment system. "The incentive scheme has the potential of shifting at least 30% more customers to digital means which will further reduce the cash requirement of nearly Rs 2 lakh crore per year at petrol pumps," Jaitley told a news conference.

Jaitley said nearly 4.5 crore customers who buy petrol or diesel at petrol pumps per day can avail the incentive. It is estimated that petrol and diesel worth Rs 1,800 crore is sold per day of which nearly 20% is paid for through digital means. In November, this increased to 40% and cash transaction of Rs 360 crore a day shifted to cashless methods.

Public sector insurance companies will provide up to 10% discount on the premium in general insurance policies and 8% in new life policies of Life Insurance Corporation sold through their portals.

For those who buy online tickets for rail travel there will be a free accident insurance cover of up to Rs 10 lakh. This facility will not be available to those who buy tickets at ticket counters and are currently limited to a few trains. Jaitley said nearly 14 lakh railway passengers buy tickets everyday of which 58% of tickets are bought online through digital means. It is expected that another 20% of passengers may shift to digital payment methods. "Hence, nearly 11 lakh passengers per day will be covered under the accidental insurance scheme," he said.

Those buying monthly and season tickets through digital methods for travel in suburban railway networks will get a discount of 0.5% from January 1.

Nearly 80 lakh passengers use seasonal or monthly tickets on suburban railways, largely buying in cash, spending about Rs 2,000 crore per year. As more passengers

shift to digital means, the cash requirement may get reduced by Rs 1,000 crore per year in near future, the finance minister said. For services such as catering, accommodation and booking retiring rooms offered by railways and affiliated entities, a discount of 5% would be available for those paying digitally. This facility is available to all passengers.

Those who use RFID cards and fast tags can get a discount of 10% at toll plazas on national highways. To expand the digital payment infrastructure in rural areas, the Centre through NABARD will extend financial support to eligible banks for deploying two POS (point of sale) devices each in 1 lakh villages with population of less than 10,000.

These POS machines would be deployed at primary cooperative societies, milk societies and agricultural input dealers to help farmers access these facilities.

## **Business line**

### **5. Nabard to extend ₹120 cr to banks for deploying PoS units in villages**

#### OUR BUREAU

With the government placing emphasis on digital payments following demonetisation of ₹500 and ₹1,000 currency notes, the National Bank for Agriculture and Rural Development (Nabard) on Thursday said it will extend about ₹120 crore to banks for deployment of two point-of-sale (PoS) terminals each in one lakh villages with a population of up to 10,000.

The move is aimed at taking rural India closer towards cashless payment systems, Nabard said in a statement.

A PoS terminal is an electronic device which processes card (debit and credit) payments at merchant locations. It is used for cashless transactions, both for making payments or disbursing cash.

As part of the plan to expand the digital payments eco-system and facilitate the move towards cashless transactions, the government has decided that an additional 10 lakh new PoS terminals would be installed by March 31, 2017.

Towards this end, banks have already placed orders for six lakh PoS machines and another four lakh machines are likely to be ordered in the next few days.

The country currently has about 15 lakh PoS terminals across different merchants to facilitate card-based payments.

#### **EVM chip, Kisan card**

Further, to encourage adoption of new-generation secure technology among farmers who are already on RuPay KCC (Kisan Credit Card) platform, Nabard said it will now support procurement of EMV chip and PIN-based RuPay Kisan Cards by both regional rural banks and rural cooperative banks.

Nabard will spend about ₹108 crore towards this. It will cover around 4.32 crore KCC holders. EMV is a technical standard for smart-card based payment systems created jointly by Europay, MasterCard and Visa.

KCC cards seek to provide need based and timely credit support to farmers for their cultivation needs as well as non-farm activities in a cost-effective manner.

According to Harsh Kumar Bhanwala, Chairman, Nabard, following demonetisation, there is a pressing need to move towards digital transactions, especially in the rural economy.

“At Nabard, we believe that these two initiatives will have a positive impact in easing the transition to digital transactions,” he said.

### **Financial Inclusion Fund**

A senior Nabard official said the funds for deployment of PoS and procurement of EMV chip and PIN-based RuPay Kisan Cards will be made available to banks from the Financial Inclusion Fund (FIF).

The total balance in the FIF was ₹2,453 crore as on March-end 2016. At the end of 2015-16, cumulative sanctions under FIF stood at ₹1,611 crore and cumulative disbursements at ₹671.55 crore, of which ₹25.92 crore was refunded.

The fund supports ICT interventions of rural financial institutions so as to enable them to bring the disadvantaged population under the umbrella of financial services.

### **6. Balances in Jan Dhan a/cs rose a mere 2% during Nov 24-30**

AJ VINAYAK

The balance amounts in Pradhan Mantri Jan Dhan Yojna (PMJDY) accounts, which witnessed a growth of around 60 per cent in 14 days after November 9, registered only 2.04 per cent growth after November 23.

The balance in PMJDY accounts, which was at ₹7,2834.72 crore as on November 23, increased to ₹7,4321.55 crore as on November 30.

The balance in these accounts increased by ₹1,486.83 crore during November 24-30. Of the 36 States and Union Territories in the country, eight saw a decline in the balance in their PMJDY accounts during the third week of demonetisation.

A majority of them, with the exception of Kerala, were southern States.

The balance in PMJDY accounts came down by ₹27.54 crore in Karnataka, ₹14.97 crore in Tamil Nadu, ₹19.97 crore in Telangana, ₹1.98 crore in Andhra Pradesh, and ₹4.69 crore in Puducherry.

On the other hand, the balance in these accounts climbed by ₹314.95 crore in West Bengal, ₹206.93 crore in Rajasthan, ₹137.33 crore in Uttar Pradesh, and ₹102.81 crore in Maharashtra during the period November 24-30.

### **Number of accounts**

The total number of PMJDY accounts increased by 10.83 lakh in the third week of demonetisation — from 25.67 crore on November 23 to 25.78 crore on November 30. Around 16.47 lakh new accounts were added during November 9-23.

States such as Goa, Telangana and West Bengal added more than one lakh PMJDY accounts, and Uttar Pradesh added nearly two lakh accounts during the third week of demonetisation.

The number of accounts came down in Chandigarh, Himachal Pradesh, Jammu & Kashmir and Punjab during the period.

The share of zero-balance accounts to total accounts, which remained at 22.94 per cent from November 9-23, fell to 22.84 per cent during November 24-30.

PMJDY envisages universal access to financial services, with at least one basic banking account for every household.

## **7. No service tax on credit, debit card transactions up to ₹2,000**

PTI

The Government will waive service tax on debit and credit card transactions of up to Rs. 2,000 to promote digital transactions amid cash crunch following the withdrawal of old Rs. 500 and 1,000 banknotes.

The Government has decided to "exempt services by an acquiring bank to any person in relation to settlement of an amount up to Rs. 2,000 in a single transaction through credit, debit card or other payment card service", sources said.

A notification to this effect will be tabled by Finance Minister Arun Jaitley in Parliament.

Following demonetisation of old high value notes, there has been a cash crunch in the country as people have been making a beeline for banks and ATMs to withdraw new currency.

The Government has been taking steps to promote cashless or digital transactions to take India towards a less-cash economy.

Recently, the Government asked banks to install additional 10 lakh PoS terminals by March 31 in different parts of the country.

The service tax notification of June 2012 will be amended to include exemption on credit and debit cards, the sources added.

As of now, services provided by organisations such as United Nations and other international bodies are exempt from tax.

A range of other services provided by arbitral tribunals, testing of newly developed drugs, educational institutions, trade unions, general insurance business and sports bodies, among others, too are exempt from the levy.

## **8. IDFC Bank appoints Veena Mankar as Non-Executive Chairperson**

OUR BUREAU

The board of directors of IDFC Bank has approved appointment of Veena Mankar as Non-Executive Chairperson, with effect from December 9, 2016, up to July 26, 2018. The appointment is subject to approval by the Reserve Bank of India.

The private sector bank, in a statement, said Anil Bajjal stepped down from the board on Thursday at the end of his tenure. Mankar has been an independent director of IDFC Bank since July 27, 2015.

According to the statement, Mankar started her career in 1975 with ICICI, the erstwhile development finance institution, which was followed by commercial banking experience in Dubai.

Mankar set up and headed the Indian Representative Office of West LB, a German State-owned bank and thereafter was the founding Managing Director of a factoring non-banking finance company.

## **9. Bad loans will weigh on Indian, Chinese banks in 2017: Fitch**

PRESS TRUST OF INDIA

Banks in China and India will continue to remain under pressure next year due to mounting bad loans, even though earnings and capital buffers are strong enough to withstand any serious threat, Fitch warned on Thursday.

"Our 2017 outlook on more than three-quarters of the banks in the region is negative. Though earnings and capital buffers are generally strong enough to withstand these trends, we expect viability ratings to remain under pressure in China and India," Fitch said in a report.

In the 2017 outlook on Asia-Pacific banks, Fitch said, "Most of Asia-Pacific's banks are facing cyclical deterioration in asset quality in 2017, as a challenging economic environment continues to put pressure on borrowers."

Noting that there has been a rapid build-up of private sector debt — both corporates as well as households — in a number of APAC (Asia-Pacific) economies since 2009, the report said the resultant vulnerabilities will continue to be tested in 2017.

### **Other challenges**

"We expect economic growth in emerging market Asia to moderate further to 6.4 per cent in 2017, which is still faster than the other regions but down from an average of 7.8 per cent in 2010-14," it said.

On the other hand, low commodity prices are still creating financial problems in the resources sector, leading to more troubles for banks.

Other challenges that banks face include very low, or negative, interest rates and the rapid development of disruptive financial technologies, it noted.

Noting that more downside risks have risen over the last year for the region, it said though the Chinese economy has stabilised, rapid credit growth is posing a rising threat to basic economic and financial stability.

Another pain point could be Donald Trump's win in the US Presidential election, which has already led to a spike in interest rates, and a stronger dollar.

"Rising dollar will hurt APAC exporters and make it more difficult for borrowers to service dollar-denominated debt," it warned, adding Donald Trump's proposed protectionist policies could disrupt trade, particularly damaging emerging Asian economies.

With kind regards,

Yours Comradely,



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