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Dear Comrades,

10th August , 2016

News of Interest 10th Aug

QUOTE OF THE DAY

“SUCCESS IS NOT FINAL, FAILURE IS NOT FATAL: IT IS THE COURAGE TO CONTINUE THAT COUNTS.”

WINSTON CHURCHILL

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Business Standard

1. Bond markets rally as salute to Rajan's last monetary policy

RBI Governor says if the central bank sees stress in currency market, it will take a call on infusing liquidity in the foreign exchange markets

Abhijit Lele

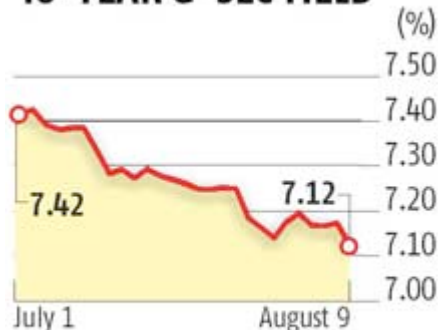
Giving a thumbs-up to the Reserve Bank decision to keep the system flush with liquidity and maintain an accommodative monetary policy stance, the yield on benchmark government paper (10-year bonds) eased by five basis points (bps) to a three-year low of 7.12 per cent.

Bond dealers and treasury executives said this was a most positive aspect of the policy stance, to be open for reducing the policy rate further and to continue to inject money in the system to ward off the expected crunch when FCNR (B) deposits are redeemed over the next few months. On this issues, of a dollar shortage on FCNR (B) deposit redemptions, Rajan said

if the central bank saw stress in the currency market, it would take a call on infusing liquidity in the foreign exchange markets.

On Monday, the yield on benchmark bonds had closed flat at 8.17 per cent, as traders had turned cautious ahead of RBI's Tuesday review.

10-YEAR G-SEC YIELD



Compiled by BS Research Bureau
Source: Bloomberg

ICICI Bank in a note to investors said the review was accompanied by an announcement of open market operations (OMOs) of Rs 10,000 crore on Thursday, lending positive cues to gilts. Further, the policy statement highlighted that liquidity easing measures would be front-loaded and this aided the domestic bonds further.

The yield on the 10-year benchmark bond eased by 30 bps over July in the aftermath of the British vote to leave the European Union, amid rising global growth concerns. In the near term, the 10-year yield is expected to trade in the range of 7.10-7.24 per cent by end-September.

OMOs are market operations conducted by RBI by way of sale or purchase of government securities, to adjust rupee liquidity conditions. If there is an excess liquidity, RBI sells securities to drain rupee liquidity. Similarly, when conditions are tight, RBI buys securities from the market.

RBI said the new liquidity framework announced in the April policy was being implemented. It has reduced some of the structural liquidity deficit.

However, Rajan said, the current surplus is partly because of seasonal factors and not because RBI has eliminated the structural deficit. RBI will proceed in a calibrated way towards the goal of doing so.

Liquidity eased significantly during June and July, with increased spending by the government which more than offset the reduction in market liquidity, due to the higher than usual currency demand.

The injection through purchases under OMOs of Rs 80,500 crore so far also helped in easing liquidity. This has brought the system-level ex ante (based on forecasts) liquidity deficit to close to neutrality, albeit without seasonal adjustment.

Accordingly, the average daily liquidity operation switched from a net injection of Rs 37,000 crore in June to a net absorption of Rs 14,100 crore in July and Rs 40,500 crore in August (up to this Monday), RBI said.

2. Ready for FCNR (B) redemptions without disruption: RBI

Has covered 80% of requirements through forward contracts

Abhijit Lele

Clearing concerns over adverse effect of outflows from foreign currency non-resident (bank), or FCNR (B), deposits upon maturity, Reserve Bank of India (RBI) Governor Raghuram Rajan said the central bank had signed forward

contracts for 80 per cent of dollar requirements to meet obligations. RBI also has ample reserves to fight curb excess volatility in the market, he noted.

In the Third Bi-monthly Policy Statement for 2016-17, Rajan said the central bank has been front-loading liquidity provision through open-market operations and spot interventions and deliveries of forward purchases.

"The Reserve Bank will continue with both domestic liquidity operations and foreign exchange interventions that should also enable management of the FCNR(B) redemptions without market disruptions," he said.

In his post-policy media interaction, Rajan said: "We do not see FCNR(B) repayments as disruptive. With the preparation we have made and good management, redemptions should go smoothly."

Later in a call with analysts, the RBI governor ruled out any plans to have similar schemes for shoring up reserves after redemption.

For Rajan, one of the first challenges in September 2013 after taking charge as governor was to shore up foreign exchange reserves to defend the rupee.

A hint by US Federal Reserve chairman Ben Bernanke in May 2013 about gradual withdrawal of easy money policy created ripples in global markets. The Indian currency came under attack when the external profile of the country was weak and reserves were depleting.

Banks had raised nearly \$34 billion between September and November 2013, out of which \$27 billion was through FCNR (B) deposits, maturing mostly in three years. Banks, then, swapped those dollars with RBI. The central bank thereafter readied itself by buying forward currency contracts.

These foreign exchanges resources were raised in 2013 to bolster India's foreign exchange reserves and contain the volatility of the rupee. The swaps and forwards will take care of the dollar requirement and should be neutral for the reserves.

3. We moved the needle forward a bit everyday, says RBI Guv

Rajan said he did not want to offer suggestions to his successor

Anup Roy

Outgoing Reserve Bank of India (RBI) Governor Raghuram Rajan probably intended to keep the post-policy discussions focused on the day's main event but media representatives had their own ideas and nobody was willing to leave this last chance to get some bits from him about his unexpected departure from the central bank.

The usually freewheeling Rajan, however, kept the pitch subdued by chastising the media for dragging family members into the public domain. The RBI governor was upset that a reporter contacted his parents after Rajan's resignation in mid-June.

"I don't think reporters should be going after families. They should have stayed away, they got in, he (Rajan's father) gave an answer. I don't have anything more to say on that," Rajan said, interrupting a question on controversies surrounding his tenure at RBI.

The enthusiasm among journalists was diffused and nobody wanted to poke him beyond this point.

But, he did express satisfaction about his tenure, albeit in a guarded manner. Anyway, the otherwise frank governor had a practice of never reacting to his critics, for fear of giving them "legitimacy".

Absent were euphemisms such as "My name is Raghuram Rajan and I do what I do," or the controversial "In the land of the blind, the one-eyed man is king — we are a little bit that way".

But he did brush aside the critics saying what mattered in the long term was whether the needle moved a bit.

"Snap judgements", either by critics or supporters don't really matter. What matters is how these play out in the longer run for stronger and sustainable growth for the country, for job creation and movement into middle income, he said.

"That is something you can see only with the benefits of five-six years of experience and to know whether it was appropriate. In our view, the measures that we have taken in the RBI were and are justified, given the condition that we have," Rajan said. Critics are there all the time, but there are also people "who send me anonymous messages in the plane saying thank you for what you are doing".

"I think the most important thing is that at the end of the day, you feel that you have made a useful contribution and that some people are better off as a result of it. From that perspective, I think this has been a fantastic journey. I have enjoyed every minute of it, partly because every day when my fellow colleagues at the RBI and I sit together and work, we manage to move the needle forward a little bit," the RBI governor said. "You leave the office saying you did something and there are few places in the world where you can have that sense of satisfaction. So, I think this has been a fantastic experience and I hope there is some value added."

Rajan has still not firmed up his future plans, other than going back to his former employment structure in Chicago. While continuing as a professor there, he says he will continue to engage with Indians on various policy initiatives. "Let's see going forward what I do but I haven't made plans yet."

Rajan also did not want to offer suggestions to his successor and wrapped up the press conference in as professional a way as he started his governorship on September 4, 2013.

Financial Express

4. RBI monetary policy fosters optimism: Arundhati Bhattacharya

It reinforces RBI's commitment towards an accommodative monetary policy and comfortable liquidity conditions.

By: Arundhati Bhattacharya

RBI's decision to keep the policy rates unchanged for the upcoming months has largely been influenced by the sudden rise in inflation, to 5.7% (June 2016), with a threat of further rise being perceived. The growth projection (GVA) for FY17, at 7.6%, has been retained with balanced risks. Regarding inflation projections (CPI), although RBI retained the June 2016 policy projections, there

are upside risks, on account of full implementation of the Seventh Pay Commission recommendations.

Liquidity management has assumed greater significance since RBI's announcement of moving towards a neutral liquidity mode in the first bi-monthly monetary policy statement. RBI, in fact, has been able to manage system liquidity effectively. So far, RBI has injected R800 billion of open market operations (OMO). Further, with the FCNR(B) deposits maturing, dollar outflows will increase. RBI has been front-loading liquidity provision through OMO and spot interventions/deliveries of forward purchases for efficient liquidity management; this seems to be a smart move as our estimates suggest that with currency with the public continuing to increase and state elections round the corner, such a trend may remain elevated.

Under such a scenario and with net foreign exchange acquisition in the current fiscal still to pick up meaningfully, there has to be more-than-adequate compensating creation of domestic assets through OMO. In order to smoothen the supply of durable liquidity, RBI is actively conducting a mix of term repos, variable rate repos and reverse repos of varying tenors, with a more active use of reverse repos to manage the surplus liquidity along with MSF. The Reserve Bank has stressed its intent of closing the underlying liquidity deficit over time so that the system moves to a position of structural balance. This new focus on liquidity management will result in less significance of the repo rate as the key policy instrument.

Another significant move by the RBI Governor is to spell out his intent of listing the conditions for effective functioning of the corporate bond market before his term ends. Since most corporate bond issue in India is done through the private placement route, information about issuance is hard to come by. A repository with compulsory reporting of all information related to private placements will also help bring more transparency to the market and increase interest from participants.

To incentivise secondary market trading in corporate bonds, RBI may also consider accepting high rated bonds as collateral for repos done with banks. This is expected to increase demand for such bonds and encourage active trading between market participants.

RBI had issued guidelines for providing partial credit enhancement (PCE) for corporate bonds by banks in September 2015. For example, the 20% limit for PCE provided to an issue may not be enough in some cases to improve the rating of the issue to the desired level. We are expecting some modifications to be done on August 25 in this regard (when the corporate bond market announcements will be made).

In the policy, RBI has mentioned that banks need to transmit past policy cuts through their MCLR as liquidity conditions have eased significantly. But, with banks' current overnight MCLR at 8.9% and one-year MCLR at 9.1%—down around 90 bps from banks' average base rate of 10.13% at the time of RBI's rate-cut decision—it can be safely said that the banks have already transmitted the maximum that they could, given the interest rate-agnostic behaviour of 40% of the bank deposits.

With global outlook remaining clouded for the next few years and increased uncertainty on account of Brexit, the importance of reliance on domestic factors cannot be reiterated enough. The policy acknowledges the emergence of green shoots in manufacturing sector. The outlook for agriculture and services also is

optimistic. The passage of GST Bill has also been applauded. RBI has reinforced its commitment towards providing an accommodative stance of monetary policy and comfortable liquidity conditions to support the environment for boosting aggregate demand conditions.

(The author is chairman, SBI)

5. United Bank Q1 profit down 27% at Rs 38 cr

State-run United Bank of India today reported a 26.6 per cent fall in net profit to Rs 38.32 crore for first quarter ended June 30, on higher bad loans.

By: PTI

State-run United Bank of India today reported a 26.6 per cent fall in net profit to Rs 38.32 crore for first quarter ended June 30, on higher bad loans.

The Kolkata-headquartered bank had registered a net profit of Rs 52.22 crore in the corresponding April-June quarter of 2015-16.

However, the first quarter results were better sequentially, as the bank had posted a loss of Rs 413.04 crore in January-March quarter of 2015-16.

Total income during the reported quarter fell to Rs 2,819.37 crore as against Rs 2,896.75 crore, showed the bank's balance sheet posted with regulators.

The asset quality of the bank worsened with gross non-performing assets (NPAs) rising to 14.29 per cent of the gross advances as of June 2016, up from 9.57 per cent in year ago period.

Likewise, net NPAs or bad loans rose to 9.85 of the net advances as against 6.30 per cent year earlier.

In absolute terms, gross NPAs were Rs 10,116.13 crore as against Rs 6,532.83 crore. While, net NPAs were to the tune of Rs 6,579.28 crore, up from Rs 4,091.20 crore year ago.

However, despite a high rate of NPAs, bank's provisioning for bad loans were lower at Rs 378.30 crore for June quarter of the fiscal, from Rs 493.58 crore year earlier.

Slippage increased due to economic slowdown and also, during the quarter, as par of assets quality review (AQR), RBI has advised to revise asset classification/provision in respect of certain advances, United Bank said.

"The bank has accordingly classified the advances and made the requisite provisions," it added.

Additionally, it informed that the Board of Directors of the Bank at its meeting held today has approved preferential allotment of equity to the Government up to Rs 810 crore.

United Bank stock closed 0.68 per cent up at Rs 22.10 on BSE today.

6. Home loans may change as RBI says MCLR being reviewed

Banks will soon have to review their lending rate structure, including your home and car loans, with the Reserve Bank of India stating that it would revisit the process of arriving at the Marginal Cost of fund based Lending Rate (MCLR) process.

By: FE Online

Banks will soon have to review their lending rate structure, including your home and car loans, with the Reserve Bank of India stating that it would revisit the process of arriving at the Marginal Cost of fund based Lending Rate (MCLR) process. The MCLR regime came into operation from April 1, 2016.

Replying to a question during the press conference to announce the 3rd Monetary Policy Review of FY 2017, RBI Deputy Governor S S Mundhra said that the central bank is taking a relook at the MCLR process. "We are having a relook at the MCLR framework. We will also look at the process adopted by individual banks at arriving at their MCLR," Mundhra said.

While arriving at MCLR, banks take into account their cost of maintaining cash reserve ratio (CRR), marginal cost of funds, interest rates offered on savings, current and term-deposit accounts, cost of borrowings including short-term borrowing rate which is repo rate and long-term borrowing rates and return on network.

Mundhra said that he did not visualise a situation where banks do not transmit change in floating rate loans to their customers. "If loan is on floating rate, the actual rate is a spread over the floating rate. Reduction of floating rates is normally passed on to borrowers. I do not see a situation where benefits of changes in interest rate are not passed on to customers. In case there are specific complaints we are willing to look at it," he said.

However, Mundhra was quick to mention that the Central bank would not like to meddle into commercial decision of banks. "We do not want to enter into commercial judgment of banks," Mundhra said.

7. Reliance General enters 'bancassurance' deal with co-operative bank

Non-life insurer Reliance General Insurance Company Ltd on Tuesday announced a bancassurance tie-up with Shamrao Vithal Co-operative Bank (SVCB).

By: IANS

Non-life insurer Reliance General Insurance Company Ltd on Tuesday announced a bancassurance tie-up with Shamrao Vithal Co-operative Bank (SVCB).

According to Reliance General, it will distribute its insurance products to the customers of SVCB having a network of 194 branches.

"We are delighted to have SVC Bank on board. This tie-up will enable RGI (Reliance General Insurance) to leverage SVC Bank's unparalleled retail and SME (small and medium enterprises) pan-India customer base, robust distribution network and strong brand name," Rakesh Jain, CEO, Reliance General was quoted as saying in the statement issued by the company.

"This is the fourth big partnership we have had in bancassurance. We have already tied-up with IndusInd Bank, Bank of India and Andhra Bank and expect to boost our top line by upto 10 per cent through these tie-ups and alliances," said Jain.

Bancassurance tie-up forms an important part of Reliance General's growth strategy and the company has been forging strong alliances with various banks to enhance its distribution footprint in the country.

This move follows the recent IRDA guidelines that allow a bank to tie-up with multiple insurance companies as its bancassurance partners and help banks offer a well-rounded portfolio of insurance products to its customers.

Economic Times

8. Better customer service, now in your hands

By Saloni Shukla, ET Bureau

Customer service in banks has been more of a misnomer, with customers often running into a wall of bureaucracy at branches. The Reserve Bank of India is trying to change that by allowing customers to challenge a banker if their job doesn't get done.

The know-your-customer (KYC) rules, which, according to Governor Raghuram Rajan, were one of the biggest irritants for customers, have been simplified considerably. "But, sometimes the local branch may not know them," Rajan said.

"If your branch does not know these simplified norms, please go to the RBI webpage and point them out (to the bank), and you will be doing a public service." Rajan said that a customer can now self-certify a change in address without visiting a bank branch.

The new KYC rules can be accessed on RBI's webpage under the "FAQs for KYC" section. Rajan again warned about the pitfalls of emails promising millions of dollars if bank account details are shared.

"The reality is such emails are not from me, and the RBI does not give out money directly to ordinary citizens even though we print plenty of it." The banking regulator and securities regulator had come together last week to launch a website — Sachet — to help the public identify if an entity accepting deposits is registered with any regulator or not.

Citizens can also file and track a complaint against illegal entities that have duped them. They can also share information regarding entities accepting public deposits illegally.

Business Line

9. RBI is comfortable with bad loans clean-up by banks: Rajan

OUR BUREAU

Governor Raghuram Rajan on Tuesday said the Reserve Bank of India is comfortable with the bad loans recognition process by banks and there would be no backtracking on the same.

"Banks have certainly taken a lot of steps (to clean-up their balance sheets)...And so the culture of cleaning up seems to be well embedded as well as the culture of recovery on some of the loans," said Rajan in a media interaction after announcing the third bi-monthly monetary policy review.

In a speech in June, the Governor observed that since October 2015, when the RBI completed the bank-wide Asset Quality Review (AQR), banks have classified existing distressed loans appropriately, and since March 2016 are looking at their weak-but-not-yet-distressed portfolio for necessary actions.

"There is a change in culture, and banks have been quite willing to get into the spirit of the AQR. Many have gone significantly beyond our indications in what they have cleaned up by the quarter ending March 2016.

"Of course, once the banks have properly classified a non-performing loan and provisioned against it, their incentive to evergreen or avoid writing down the debt to appropriate levels is diminished," he then said.

On Tuesday, Rajan said when it comes to large stressed projects there is a need to figure out a way to restructure them in a way that makes sense for the longer term health of the system and the health of the project.

"Now there are a number of RBI schemes that are available (for resolution of stressed assets) – the latest being the S4A (Scheme for Sustainable Structuring of Stressed Assets). And, well, early days. The attitude towards these schemes is also changing. The earlier attitude was this is a way to postpone recognition. That is no longer there.

"Now the question is -- is this the way to effect resolution? And so these schemes are now being looked at with new eyes."

Rajan hoped that as the recovery in the economy also starts taking place, some of the stressed assets will put back on track. There will also be more buying interest in some of the other assets, which have the possibility of new ownership.

"So, at this point, I think, banks have enough tools. The real issue is to use them. We are working with them to make sure that any impediments are rectified.

"Again and again we emphasise, we don't want to go back to the old days of forbearance. So, they have to use these tools in an effective way and the schemes have been structured such that there is no implication of forbearance," said the Governor.

To a question on whether there be some backtracking (on asset recognition) after his term at the helm of RBI ends next month, Rajan emphatically said he didn't see why there should be any backtracking.

"I think the path is clear. There has been substantial co-operation all along the way between the government and the RBI on this. The banks as well as the (company) promoters know what needs to be done. And therefore, I would think, that it is a process of doing it as opposed to backtracking," explained Rajan.

10. 'It has been a fantastic journey... have enjoyed every minute of it'

OUR BUREAU

Several hues of Raghuram Rajan's personality came to the fore during his last policy statement on Tuesday.

Answering queries from the media with aplomb as was his forte, he let his colleagues chip in with explanations more often than he would normally do.

He was amused at the fact that journalists asked him multiple questions whenever their turn came with the average being two questions in one chance provided. After the first journalist asked the question, he remarked "Three questions, anymore?"

He cut short a question from a journalist when reminded of his father's response to the media on his decision of going back to academia.

Interrupting a reporter he said "I stop you there. My father was surprised by one reporter and I don't think reporters should be going after families. They should have stayed away. They got in, he gave an answer. I don't have anything more to say on that."

On his critics, he said "Look, I have nothing to say. Critics are there all the time. There are also people who send me messages in the plane from the back, anonymous notes, saying thank you for what you are doing. So, you get both sides. That is part of the job and you have to take as the costs and the benefits.

And I think the most important thing is that at the end of the day you feel you have made a useful contribution. And you know some people are better off as a result of it. I think from that perspective, this has been a fantastic journey. I have enjoyed every minute of it, partly because every day when my fellow colleagues at the RBI and I, if we are at work, we manage to move the needle forward a little bit at the end of the day. We leave the office saying we did something. There are very few places where you can have that sense of satisfaction. So, I think, this has been a fantastic experience. I hope there is some value added."

Finally when he was concluding his statement before taking questions Rajan urged customers to educate bankers that they could self certify the documents whenever they changed residence. He said "One of the biggest sources of harassment for ordinary customers in the banking system is meeting KYC or Know Your Customer rules. Actually, these have been simplified considerably in the recent past, but sometimes your local branch may not know it. For instance, if you move, your new address can be self-certified and you do not need proof of new address. If your branch does not know these simplified norms, please go to the RBI webpage and point it out to them. You will be doing a public service."

He added that he intended to fully use the 28 days remaining in his tenure as RBI Governor.

(This article was published on August 9, 2016)

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY