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**Dear Comrades,**

**15<sup>th</sup> November , 2016**

**News of Interest 15th Nov**

**QUOTE OF THE DAY**

**“WHAT YOU GET BY ACHIEVING YOUR GOALS IS NOT AS IMPORTANT AS WHAT YOU BECOME BY ACHIEVING YOUR GOALS”. ZIG ZIGLA**

- 1. DEMONETISATION: STRAIN ON BANKING SYSTEM AS CARD USE ZOOMS 60%**
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Business standard

### **1. Demonetisation: Strain on banking system as card use zooms 60%**

Overall national growth in card usage was 60%, with majority skewed towards debit card usage

Anita Babu & Namrata Acharya

A 60% jump in card usage across India following the demonetisation move by the government has put a strain on the backend payment systems network, forcing customers to put off purchases of goods.

Since the Narendra Modi government scrapped Rs 500 and Rs 1,000 notes last week, first-time usage of debit cards has shot up by 30% and there has been a 20% increase in activation of card machines that were dormant, according to digital

payments processor Innoviti. The overall national growth in card usage was 60%, with majority skewed towards debit card usage.

Banks also saw a jump in debit card usage across India but one official, who confirmed the spike, could not immediately quantify it.

"There was heavy traffic in debit card transactions. A lot of people were using their cards for the first time, which further slowed down the system as many people could not recall passwords or follow instructions at automated teller machines (ATMs)," said Ravi Krishan Takkar, managing director (MD) and chief executive officer (CEO) of UCO Bank.

Since Saturday, retailers and shopkeepers across India saw transactions fail at point-of-sale machines, forcing many people to skip purchase of goods, as they also did not have adequate cash to buy them. In some of the retail outlets, customers had to wait for up to an hour to make payments. Adding to the woes of the customers, in some cases while debit-card transactions were shown as successful through alerts to buyers, but the merchants did not receive confirmation of those payments. In other cases, transactions did not even initiate.

"I waited for quite long for my payment to go through. Ultimately, I had to give up the purchase because I was not carrying enough cash," said a customer at a retail hypermart.

Bengaluru-based Innoviti, backed by N R Narayana Murthy's Catamaran Ventures, which processes about 20% of the country's digital payments for businesses such as Reliance Retail and Titan, saw many customers transact less than Rs 500.

"The average increase across the country is about 60%. Average daily card (credit plus debit card) transactions are about Rs 1,400 crore. These have gone up to about Rs 2,000 crore per day currently," said Rajeev Agrawal, CEO and MD of Innoviti Payment Solutions.

"The jump in transactions is driven disproportionately (200 per cent) by merchants in the lowest average ticket size band of Rs 1-500. This suggests that people had cards but were not using in this segment," said Agrawal, adding: "The overall increase in transactions is more skewed towards debit card (75%), suggesting first-time card usage by hitherto inactive debit cardholders may be driving the transaction jump."

With the note ban, the government is encouraging more people to use digital payments for their daily transactions, while discouraging use of cash for such transactions. The demonetisation plan has also inconvenienced millions of users across India, particularly poor people who were left with higher denomination notes and were unable to use those at counters to buy food or pay for local transport.

"Yesterday, there were reports of heavy traffic through card transactions, which had led to link failure for a few hours," said an executive with a private-sector bank.

The jump in card transactions was higher against the national average of 65% increase in card usage. Majority of the spike in card payments has been in entertainment, restaurants and liquor, suggesting many consumers were not postponing spends but simply moving from cash to card in these categories.

Meanwhile, a large number of ATMs remained closed and banks struggled to configure them to dispense new currency notes.

At United Bank of India, close to 60 per cent of the ATMs could be configured, even as long queues were noticed outside the ones which were working.

"We are expecting that by the end of the day, all the ATMs will be configured," said Pawan Kumar Bajaj, CEO and MD at United Bank of India.

## **2. Recalibrating ATMs to take more than a week, say bankers**

Cash management companies reported filling up ATMs had been affected because bank staff were under pressure at branches

Abhijit Lele

Bankers said work on recalibration of ATMs for new currency notes had begun but it would take more than a week to cover a substantial part of the network.

Cash management companies reported filling up ATMs had been affected because bank staff were under pressure at branches. It is taking far longer to get money for loading and carrying to ATMs. Only one-third of the usual number of ATMs had been filled in last two days.

An executive with a company manufacturing ATMs said technical changes for recalibration involved software as well as hardware work. More than 1,000 professionals are on the job.

Some banks have intensified use of micro-ATMs in remote areas. IDFC Bank has Aadhaar-enabled interoperable micro-ATMs at 1,000 unbanked locations in kirana stores, chemist shops and panchayat offices.

Long queues at bank branches and ATMs were reported across the country on Monday. This deterred many from visiting branches and ATMs and they chose to use online payments and point-of-sale machines.

An ICICI Bank spokesperson said debit card transactions had shot up by 100 per cent over the last seven days and credit card transactions were up nearly 40 per cent.

On November 12, point-of-sale and e-commerce transactions processed using ICICI Bank debit cards were significantly higher than 1 million. This is a 70% increase over regular volumes.

Deepak Chandnani, CEO, South Asia and Middle East, Worldline, an electronic payment monitoring company, said the volume of card transactions at points of sale had climbed from about 4 million a day to 10 million.

## **3. Chit funds, private money lenders feel the heat**

Overall, around 25 per cent of the deposits in chit funds are in cash

T E Narasimhan

While the Centre's move to demonetise the Rs 500 and Rs 1,000 notes will have short-term impact on the Rs 35,000-crore chit fund sector, it will also clean up the segment. Overall, around 25 per cent of the deposits in chit funds are in cash. In rural areas, the proportion could be as high as 50 per cent.

T S Sivaramakrishnan, director of Balussery Benefit Chit Fund, and founder general-secretary of the All India Association of Chit Funds, said: "As we always say, unregistered chit funds are the worst enemy for us, and this would help to clean up the system."

According to him, instances of failure on the part of such unregistered players are incorrectly attributed to legitimate chit funds. He said people have already started calling the association about the fate of their cash with such operators.

The association is advising its members not to take bulk money since it will be a problem if detected by the income-tax (I-T) department. With defaulting chit subscribers now coming forward to clear their dues with old notes, companies are also in a dilemma.

"I think the I-T department can be a little lenient, as long as the accounted cash is coming into the system," said Sivaramakrishnan, adding cash flows for chit companies will certainly be affected for a month or two.

He said bulk of the cash transactions happen in rural areas, but these wouldn't be in big-ticket deposits.

"Ours basically being a cash economy, even those who have no unaccounted cash were used to paying cash. It may take time for them to switch over to virtual modes of payment," he added.

Subhasri Sriram from Shriram Group, which does about Rs 250 crore worth of chit fund business a month, said: "It is too early to say how much benefit will happen in the future, but currently it is difficult for small businessmen, since they don't have enough cash to do business."

Adding: "We'll have a delay in payment of around 15 days. The money supply is being rationed out. It's just a question of time to get the currency printed and taken to the branches. It is a temporary issue."

K P Geevarghese Babu, general-secretary of the All Kerala Association of Chit Funds and a local leader of All Kerala Private Bankers' Association, an organisation of lenders who offer gold loans and loans on promissory notes, said the chit funds and private lenders in Kerala were badly hit by demonetisation.

He said the chit funds, which were collecting Rs 1-1.5 crore a day, are now collecting a few lakhs now. Since Friday, a majority of the chit funds stopped collection of money since all the cash has been coming in Rs 500-1,000 denominations.

"While the customers are bringing in legitimate money, the apprehension is whether there would be regulatory action if we collect it, considering the notes are not meant to be in transaction from midnight of November 8," said Babu.

Private money lenders, in a meeting of the association held on Sunday, decided to stop collection of money temporarily, he added. The sector expects the situation to stabilise in some weeks.

Financial Express

#### **4. Yes Bank's Rana Kapoor on contouring the monetary framework**

India's monetary policy architecture has undergone a transformational upgrade in the last 2-3 years. The adoption of a flexible inflation targeting framework, nurturing of the term money market, migration towards a neutral liquidity regime, and a...

By: [Rana Kapoor](#)

India's monetary policy architecture has undergone a transformational upgrade in the last 2-3 years. The adoption of a flexible inflation targeting framework, nurturing of the term money market, migration towards a neutral liquidity regime, and a committee based collective decision making (via Monetary Policy Committee) have heightened key elements of accountability and responsibility.

Monetary policy is typically the first line of defence against both domestic and global shocks. The policymakers in India have indeed taken a great stride in fortifying this critical mechanism. However, emerging market economies (EMEs) face a number of challenges due to the nature of their underdeveloped financial markets, relatively low per capita incomes, prevalence of poverty, institutional rigidities, vulnerability to global contagion shocks etc.

Keeping in mind the multitude of factors involved, the existing monetary policy framework can be fine-tuned further according to domestic conditions to enable it to achieve the desired policy objectives. From a practitioner's perspective, the following four steps can be critical in imparting efficiency to the Indian monetary policy framework.

### **Move from 'calendar anchor' to 'average anchor'**

In the current monetary policy dispensation, RBI targets the end period CPI inflation, which pertains to the month of March. While this fixation with calendar can work well for developed economies where inflation volatility is low, for EMEs like India that are often susceptible to random and transient price shocks, sticking to a calendar target can be ineffective. In contrast, the average annual inflation that smoothens out the seasonal and random price vicissitudes can offer a superior anchor as a policy target.

### **Be nimble on neutral rate**

The concept of neutral interest rate is akin to the unobservable real rate that keeps inflation stable (or at target) when the output gap in the economy is zero. Globally, the neutral rate in developed economies has been drifting lower due to the combined impact of ageing population, debt overhang, low productivity growth, etc.

In its October monetary policy review, the RBI lowered its minimum threshold for the neutral rate to 1.25% from 1.50% earlier. This is not surprising and is an excellent proactive measure. In this globalised environment, India cannot remain immune from structural changes in the trajectory of neutral rate for long. While structural reforms like the GST and Bankruptcy Code will boost growth potential in the medium to long term, lukewarm investment appetite amidst the twin balance sheet problem in India has curtailed the short term growth potential despite immense opportunities on the horizon.

A somewhat lower neutral rate of 1% would be consistent with the current state of the Indian economy characterised by gradual disinflation and a negative output gap. Assuming CPI inflation averages around 4.7-4.8% in FY17, a 1% neutral rate would warrant the 1-year Treasury Bill yield to be around 5.7-5.8% (4.7-4.8% + 1%) vis-à-vis 6.4% currently. Further, the recent demonetisation drive initiated in the economy, could further induce disinflation.

This would imply 100 bps space for incremental monetary easing over the next 6-12 months.

With the government walking-the-talk on food supply management, and hence helping to keep inflation below target, the central bank in my opinion can exploit this comfortable phase and get nimble footed on neutral rate to support growth conditions. Over the course of the business cycle, the neutral rate can be gradually adjusted upwards once output gap turns positive from negative.

### **Making liquidity consistent with monetary policy stance**

Since April, the RBI has migrated to a neutral liquidity framework from the deficit regime earlier. In a neutral liquidity framework, the banking system on an average has close to zero overnight borrowing from/lending to the RBI. This is a welcome change.

However, neutral liquidity cannot be independent from the concept of a neutral rate. If the existing interest rate is higher than the neutral rate, then the stance on liquidity and the monetary policy should both be accommodative.

The current scenario is characterised by an accommodative monetary policy stance. In my opinion, this should be complemented with an accommodative stance on liquidity as well with policymakers using their discretion on the appropriate magnitude of liquidity surplus. The durable liquidity, in fact, is now bound to make way into the economy with a structural moderation in currency in circulation, post the demonetisation of ₹500 and ₹1,000 currency notes. This can be further supplemented by 100 bps reduction in the CRR to its long term target of 3% in a phased manner. This cut in CRR would reduce statutory pre-emption and unlock over ₹1 lakh crore that could help in partially reducing balance sheet stress in PSU Banks while also contributing towards productive lending.

Sceptics can argue that such a policy can interfere with the monetary policy stance, as this could result in call money rate immediately falling by 50 bps (i.e., a shift from repo rate to reverse repo rate). Such misgivings are misplaced in my opinion. With RBI having developed the term money market, a calibrated use of term reverse repos in a liquidity surplus environment can reduce the overhang and still keep call money rate close to the policy repo rate.

The collateral benefit of such a move would shrink liquidity risk premium in the money market and provide a significant boost to monetary policy transmission mechanism and the bond market.

### **Active calibration of macro prudential policies**

The global community is slowly realising the limits of monetary policy. An active usage of macro prudential policies, especially for EMEs, can help preserve the degrees of freedom for monetary policy.

RBI has done well in accumulating forex reserves as a macro prudential policy for future financial market stability. A further use of macro prudential policy can be with respect to calibration of sectoral risk weights to drive the broader policy objective. For example, lowering of risk weights for funding developers for Affordable Housing projects can help in channelizing adequate credit flow to this sector over a period of time, thereby helping in planned urban development and also benefitting government's Smart City Project.

The above mentioned contouring of the monetary policy framework can help the overall architecture get attuned to domestic conditions. In conjunction with the anticipated version 2.0 of the FRBM armature, I believe the monetary and fiscal policies can create positive externalities for our economy by maximisation of synergies.

The author is MD & CEO, Yes Bank. Views are personal

### **5. Will taxman come knocking at your door over Rs 500, Rs 1000 transactions? Here's what you must know**

THE government's decision to demonetise ₹500 and ₹1000 notes has caused a lot of concern and unrest among people. Everyone is wondering how this move will affect them and whether the tax authorities would come knocking at their doors?

By: [Neeraj Agarwala](#)

THE government's decision to demonetise ₹500 and ₹1000 notes has caused a lot of concern and unrest among people. Everyone is wondering how this move will affect them and whether the tax authorities would come knocking at their doors?

Those individuals who have legitimate money need not worry. The move by Prime Minister Narendra Modi will not cause any trouble or inconvenience to them in the

medium or long term. This is a master stroke which would hugely benefit the Indian economy and the security concerns of the public.

The government has taken a number of steps to curb the menace of black money in the economy. As per section 69A of the Income Tax Act, unexplained money means any money, bullion, jewellery or other valuable article not recorded in the books of account and about which there is no explanation on the nature and source of acquisition. Money which has not been reported in the income tax returns and on which no income tax has been paid is black money.

However, not all cash is black money. For example, cash received by an individual whose income is below the taxable limit of R2.5 lakh or cash withdrawn/received which has been accounted for and considered in the books of accounts and whose source is explained will not tantamount to black money and individuals are free to deposit such cash in their bank account without any limit or fear.

There has been a lot of talk that penalty @ 200% will be levied on deposit of cash in excess of R2.5 lakh. This fear is unfounded and misplaced. Tax authorities under no circumstances can levy penalty if taxpayers can prove that the cash deposited is not black money.

Further, the tax department will provide every taxpayer adequate opportunity to explain large cash deposits. In fact, they have introduced a new feature on the income tax portal. Taxpayers can log into their e-filing account and see a new icon for accounts with cash transactions. The taxpayer can explain cash deposits in all the bank accounts from among the six options, viz, transactions are considered to be in ITR; transactions are considered in ITR of another account holder; transactions are not considered for ITR; transactions are partly considered for ITR; transactions are not taxable or exempt and transactions do not have a relation with this account.

Going forward, as far as possible, all expenses and receipts should be done through bank either electronically, i.e., using debit card, credit card, net banking or by issuing cheques. Cash withdrawals should be restricted to a minimum amount so as to meet day-to-day cash expenses.

The writer is partner, Nangia & Co. With inputs from Neetu Brahma, manager, Nangia & Co

Business Line

## **6. Indent, supply of Rs. 100 notes didn't match even earlier, say bank unions**

VINSON KURIAN

Major bank employee unions in a letter to the India Banks' Association (IBA) have said that total chaos prevails at bank branches handling the exchange of demonetised notes.

In a letter to the IBA Chairman, S Nagarajan and C.H. Venkatachalam, General-Secretaries of the All-India Bank Officers' Association (AIBOA) and the All-India Bank Employees' Association (AIBEA), said the situation was unbearable for both customers and the general public as well as for bank officers and employees .

## **TENSION IN BRANCHES**

Rs. 100 notes are in dire shortage, the leaders said, adding that there is tension in the branches as customers and the general public prefer Rs. 100 notes for routine consumption needs.

“The Centre and the Reserve Bank must be fully aware that already there is a huge gap between the indent and supply of Rs. 100 notes.”

For example, in 2015-16, as against the indent of 535 crore pieces of Rs. 100 notes, the supply received was only to the tune of 490 crore pieces.

Even now, the new Rs. 500 notes had not been issued by RBI or received at the bank branches or currency chests.

One could not understand the reason behind banning the existing Rs. 500 notes and not providing new supply of Rs. 500 notes in time, they said.

Not all customers preferred Rs. 2,000 notes. This was causing friction and arguments between customers and staff as though the latter were deliberately pushing the Rs. 2,000 notes.

### **PM GREETES STAFF**

The bank staffs have risen to the occasion and have out-performed their duties for the past four days, overlooking their physical limitations. Even the Prime Minister has complimented and congratulated them for the extraordinary work.

“While we do not wish to go into the merits or otherwise of the scheme in achieving the purposes for which it has been intended, we would definitely like to point out that it was done without proper preparedness,” the union leaders said.

It was announced that the ATMs would be ready to function from November 11, but the reality is that most of them are closed or non-functional or partly functional.

This has put additional pressure on the staff, since customers are compelled to approach branches to draw cash from their accounts.

It is now being said it may take another three weeks for the ATMs to work normally. This is also doubtful because the existing two lakh ATMs are in various locations, including about 35,000 in far-flung areas.

### **SOFTWARE CHANGE**

The ATMs need to be recalibrated with proper trays to accommodate the new Rs. 2,000 and Rs. 500 notes, which are of different sizes.

The software may also require some changes. With acute shortage of Rs. 100 notes, the ATMs are likely to be dead machines for quite some time, which would add to the ire of the people. This anger was bound to be directed at the branch staff, making their life further miserable.

Already, officers and employees in the branches have faced the brunt with patience and commitment to duty.

“Matched only by an admirable sense of social responsibility to the people at large, they have undertaken the job unmindful of physical fatigue and mental exhaustion.

“They have worked beyond their normally expected capacity, depriving themselves of even minimum conveniences such as lunch and have sat late into the night in many branches. The pressure has been singularly heavy on the staff directly handling cash and currency chest,” they said.

## **HEALTH HAZARD**

The presence of heavy crowds in bank branches for long hours from morning till late evening, has posed a health hazard for all concerned.

“There are reports of senior citizen customers fainting in the premises and employees falling sick. We need not overstate these difficulties as these can only be imagined,” the union leaders pointed out.

Branches also have just enough staff strength and even a shortage of staff, and this sudden deluge of people milling around the branches has taken a heavy toll on the staff.

This experience has underscored the need to have buffer staff in the branches for any such contingencies.

Staff and officers were also facing IT-related issues with computers hanging on occasion. When the counters have to be closed for want of cash or when computers were down, they have been subjected to physical attacks and abuses hurled at them, including lady staff.

This has demoralised the workforce, particularly the young employees and officers who have joined the banks in recent years.

## **TRAUMATIC EXPERIENCE**

A few of them have even contacted the union leadership to say that they would like to resign their jobs. It has been a traumatic experience for many since working for long hours in such difficult circumstances has resulted in unimaginable stress and strain.

Meanwhile, a few bank managements have issued instructions for payment of overtime wages for the award staff, while others have offered compensation to officers.

While their suffering has been uniform, the compensation is not uniform. It was expected that the IBA would advise all banks to follow some common guidelines, the union leaders said.

Asking the staff to come early and work late for exigencies is understandable but it has its physical limitations. Staff cannot be expected to work long hours for days together, even foregoing their holidays.

It appears that the situation may continue for a longer period as most ATMs are not likely to work in full swing for the next few weeks and the pressure of work in the branches will continue.

Given this, the AIBEA and AIBOA have made a list of suggestions seeking the intervention of the RBI and the government in the matter:

## **SUGGESTIONS**

1. The RBI/ Centre should be approached to allow all government departments, agencies and institutions to exchange the banned Rs. 500/ 1,000 notes in addition to banks and post-offices.
2. RBI should immediately ensure adequate supply of cash in denominations of Rs. 100 and the new Rs. 500 notes.
3. ATMs should be recalibrated on top priority and made ready for use within the shortest possible time.
4. Extra business hours can be implemented where required, but staff should be deployed on shift basis; and no person should work continuously for long hours.
5. Where employees/ officers are required to work late hours, arrangements for conveyance and food should be ensured.
6. IBA should send uniform instructions to all banks on payment of overtime wages/ compensation amount.
7. For the work done in the last few days, instructions should be given to ensure payment along with this month's salary.
8. Banks should take special care while seeking services of lady employees/ officers during late hours.
9. Additional infrastructure such as computer terminals should be provided. Separate arrangements to be made to handle senior citizens.
10. Additional machines need to be provided for branches handling heavy cash to detect fake notes as the problem is getting aggravated in the current circumstances.

## **7. Old notes to be accepted at fuel bunks, govt hospitals till Nov 24**

K.R.SRIVATS

Fuel stations and government hospitals will now accept the old series of ₹500 and ₹1,000 notes till midnight on November 24, instead of November 14 as earlier announced. This was stated by Economic Affairs Secretary Shaktikanta Das at a press conference here on Monday.

Asserting that the entire exercise of de-monetisation was a "huge task", Das said Prime Minister Narendra Modi had himself admitted to the possibility of inconvenience in the initial days, but "in the long-term interest of the country we should accept this. The government is doing its best to improve the situation."

### **Recalibrating ATMs**

He said the recalibration of ATMs was under way and that they would start dispensing ₹2,000 notes in the next two days. The ₹2,500 withdrawal limit will only apply to those ATMs that have been recalibrated to dispense the ₹2,000 notes, he added.

Das said a special task force chaired by an RBI Deputy Governor had been set up to expedite the process of recalibrating ATMs. He also said that micro cash machines would be rolled out across the country.

The senior official said the RBI had assured the Centre that enough cash was available for circulation in the system.

### **Assisting the elderly**

To ameliorate the inconvenience that senior citizens and the differently-abled have had to undergo at banks, Das said they would get separate queues. Also, the last date for pensioners to submit their annual life certificate has been extended to January 15.

Das said Chief Secretaries had been told to identify places where cash had not reached and added that the cash limit of banking correspondents has been increased to ₹50,000. The cash withdrawal limit of current accounts that are at least three months old would be increased to ₹50,000 per week, he said.

The Economic Affairs Secretary also said Prime Minister Modi had on Sunday reviewed the issue of cash supply.

It has now been decided to improve supply of cash to the country's 1.3 lakh post offices.

With kind regards,

Yours Comradely,



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