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Dear Comrades,

17th October , 2016

NEWS OF INTEREST 17TH OCT

QUOTE OF THE DAY

“YOU ARE NEVER TOO OLD TO SET ANOTHER GOAL OR TO DREAM A NEW DREAM. “

LES BROWN

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Business Standard

1. NPA not an issue, rate cuts to fetch Rs 2.5 trillion gains: K V Kamath

He said that it will help the system tide over troubles and also ease pressure on growth capital

Press Trust of India

Seeking to allay fears arising from dud loans pile-up, veteran banker K V Kamath said interest rate cuts will give troubled lenders Rs 2.5 trillion boost through treasury gains that will help the system tide over troubles and also ease pressure on growth capital.

"At this point I have no fear at all (about non-performing assets)," Kamath, president of the BRICS grouping-promoted New Development Bank, told *PTI* on the sidelines of the eighth BRICS Summit here.

"The interest rate correction gives one big comfort. The treasury gains on mark-to-market for banks so far is Rs 1 trillion. We expect another 1 percentage point fall, that should lead to another Rs 1.5 trillion of gains. That is a good Rs 2.5 trillion gains coming to the banks," said Kamath, who is credited for making ICICI Bank the largest private sector lender in the country.

With some quarters flagging depleting capital levels as a key concern for lenders, Kamath said the treasury gains will also ensure that the worst of the fears do not come true.

"Capital is coming in because of the treasury gains," he said.

A one-time asset quality review undertaken by the Reserve Bank last year to have a true picture of bank balance sheets led to manifold spike in their non-performing assets, which required provisioning and historically high losses being reported by lenders. This, in turn, put pressures on the capital buffers of the banks.

This has resulted in banks shying away from lending to corporates in general and to large over-leveraged groups in particular, who collectively owe close to Rs 9 trillion in dud loans to the system.

As a result, credit to the industrial sector has come to naught. In August, it hit the negative territory with a de growth of around 0.3 per cent.

The dent in investor confidence due to the loan losses, coupled with market volatilities, has made the avenue of raising capital difficult. Moreover, coming at a time when the system is migrating to the capital-intensive Basel-III framework, it has led to more concerns on capital adequacy.

International rating agency Fitch had pegged the capital requirement of lenders at \$90 billion till 2019, when the Basel-III framework will have to be fully adopted.

According to the Reserve Bank, the gross NPAs of the banks had stood at 8.7 per cent at the end of the June quarter. In the Financial Stability Report, the RBI had said it expects the ratios to deteriorate further under a baseline scenario.

However, the fight on the NPA front has come simultaneously with a cool-down in inflation, which has led to the Reserve Bank cutting rates by 1.75 per cent since January 2015. This, coupled with expectations of the rates going down further, has resulted in treasury gains for banks as the yields go down.

Kamath lauded the work done by banks on the NPA front, saying the problematic assets have been identified and resolution of the cases is the most important aspect now.

"Identification is over, capital is there, otherwise it would be difficult," he said.

On the progress at NDB, Kamath said the Shanghai-headquartered lender's book stands at \$900 million (including \$250 million in India) and it expects to close 2016 with a book of around \$1 billion.

For 2017, the bank expects to more than double its book to \$2.5 billion.

On the liability side, he said the bank will be focusing on local currency borrowings in the currencies in which it lends to reduce volatility risks, which will also curb its hedging costs.

It is planning a masala bonds issue - where it will raise rupee-denominated debt from international investors - to support Indian lending operations, he said, adding the issue shall take place in the first quarter of 2017.

The NDB will have to get itself rated from international agencies before it embarks on such endeavours, Kamath said, but sounded deeply sceptical about the way in which they work.

He specifically pointed to their tendency to overlook capital buffers and give ratings according to the promoter countries' sovereign ratings as an impediment to a better rating. He also highlighted the issue of leverage, where multilateral agencies are not allowed to stretch their books to beyond three times their capital base.

2. Refer all high-value NPA resolution cases to overseeing committee: Finance Ministry to PSBs

The OC has been created to ensure that the entire exercise of NPA resolution is carried out in a transparent and prudent manner

Press Trust of India

The Finance Ministry has asked public sector banks to approach the newly constituted overseeing committee (OC) for resolution of all high-value bad loans and not just accounts considered under S4A.

This was conveyed to the lenders at last month's meeting between Finance Minister Arun Jaitley and the heads of PSU banks.

According to ministry sources, some banks were under the impression that only cases under the Scheme for Sustainable Structuring of Stressed Assets (S4A) are to be reviewed by the OC.

There were some information gaps which have been addressed in the meeting with the Finance Minister, sources said.

A two-member OC, which includes former State Bank of India chairman Janki Ballabh and former chief vigilance commissioner Pradeep Kumar, has been set up by the Indian Banks' Association in consultation with both RBI and vigilance and investigating agencies.

The OC has been created to ensure that the entire exercise of NPA resolution is carried out in a transparent and prudent manner.

Gross NPA of public sector banks has surged from 5.43 per cent (Rs 2.67 lakh crore) in 2014-15 to 9.32 per cent (Rs 4.76 lakh crore) in 2015-16.

Meanwhile, the RBI has said it will come out with modified guidelines by this month-end to allow a portion of sustainable bad loans to be treated as standard asset in a bid to effectively deal with highNPA problem.

The Reserve Bank has put in place the 'Scheme for Sustainable Structuring of Stressed Assets' (S4A) in order to provide an avenue for reworking the financial structure of entities facing genuine difficulties and requiring coordinated financial restructuring.

The scheme provides flexibility in restructuring, which may involve material write-down of debt and/or making large provisions, RBI had said in the fourth bi-monthly monetary policy review for 2016-17.

Banks that have taken up cases for resolution under the S4A had represented that the asset classification norms under the S4A may be reviewed to make the scheme more effective.

Accordingly, it is proposed to allow that portion of debt determined to be sustainable to be treated as a standard asset in all cases, subject to certain conditions, it had said.

Detailed guidelines in this regard will be issued by end-October 2016, it had said.

3. Only 15% population in metro aware of credit scores: Suvery

According to the survey, only 11% of the polled people have ever obtained their credit reports from any credit bureau

Press Trust of India |

Despite credit bureaus operating for past one decade and lenders making credit scores mandatory for loans, a recent survey conducted in eight metros has found that only 15 per cent people are aware of such a system, while over 50 per cent respondents are unaware of the bureaus.

"A large majority of 53 per cent of the people polled are still not aware of the credit bureaus and credit scores, and only a minuscule 15 per cent are aware of their own credit score," says an eight city survey by Credit Sudhaar involving around 1,500 people.

This is in spite of the fact that 70 per cent of the respondents are aware that having a healthy credit history and score will help them get easy access to credit and 41 per cent of them know that a good credit score gets them cheaper interest rate as well.

The findings are interesting as nearly half-a-dozen credit bureaus such as Cibil and Experian have been operating in the country for the past one decade and the Reserve Bank had recently asked them to offer individual credit scores annually free of cost, beginning December.

Credit Sudhaar guides people to manage their credit and finance, and the survey was carried out in Mumbai, Delhi, Bengaluru, Pune, Ahmedabad Chennai, Hyderabad and Kolkata - the cities which constitute the largest chunk of credit market for lender, says the survey.

According to the survey, only 11 per cent of the polled people have ever obtained their credit reports from any credit bureau. This is significantly low given the massive increase in the population that qualifies for loans, and just about nine per cent have reviewed their credit reports in the past 12 months.

Among the polled cities, Delhi and Bengaluru have better awareness with 25 per cent respondents being aware that a good credit score will help in a job application.

One of the reasons for not accessing credit scores is the increasing instances of identity thefts with 35 per cent of the respondents citing this as a threat. But only a meagre four per cent have purchased any kind of protection.

Chennai and Bengaluru lead in safeguarding themselves from identity theft, while Hyderabad and Pune have the least intention (10 per cent) of checking their credit reports.

Application of the digital media is increasing in the credit market with 35 per cent intending to apply for a loan or credit card through online channel. But nearly half (44 per cent) would still apply directly, and only 21 per cent wish to engage a third-party.

Financial Express

4. New regulations in place; Aadhaar Card records to be preserved for 7 yrs by Centre

UIDAI chief executive officer ABP Pandey said that the concerns regarding Aadhaar card-related benefits were "exaggerated" and that the agency will keep the records in case any disputes arise in the future.

By: [FE Online](#)

As per new regulations, the government will now keep a record for seven years of all services and benefits that are availed using Aadhaar number. Fearing that the database might be used for surveillance, the Unique Identification Authority of India (UIDAI) will preserve the records.

UIDAI chief executive officer ABP Pandey said that the concerns regarding Aadhaar card-related benefits were "exaggerated" and that the agency will keep the records in case any disputes arise in the future.

Pandey added that the information will be available online for two years and shall be shifted to the offline archives for the next five years. In that case, users will be able to check the records only for two years. However, the rules won't apply for security agencies and that they will need a district judge's permission to access the data.

According to *HT*, the rules allow designated joint secretary-level officers at the Centre to order access to information on the grounds of national security.

Talking about this Sunil Abraham, director of the Bengaluru-based think tank, Centre for Internet and Society said that once Aadhaar becomes mandatory, it can be misused to conduct a 360-degree surveillance on any person.

Every time a person fingerprints and quotes the Aadhaar number, the agency concerned sends the data to UIDAI to crosscheck the particulars.

The UIDAI authenticates about five million Aadhaar numbers, which are quoted to avail [LPG subsidy](#), cheap ration and even passport, a day against a capacity to verify 100 million requests daily, reports *HT*.

Meanwhile, The Unique Identification Authority of India (UIDAI) has launched a drive to enrol any leftover population for Aadhaar in 22 states and UTs that have "statistically" hit 100 per cent coverage for adults.

The 'Challenge drive' starts from October 15 for a month, a UIDAI statement said, adding that as of today, over 106.69 crore Aadhaar numbers have been generated across the country.

5. LIC Housing Finance rated 'Buy' says set to gain most from falling yields

Valuations do not factor in sustained spread improvement; stock is set for a re-rating

By: Motilal Oswal

With market borrowings its predominant source of funds, LICHF's cost of funds has declined faster than other HFCs in the last 3-6 months. Continued bond purchases by the RBI in open market operations and repo rate cuts would continue to drive down bond yields, which would in turn favourably impact LICHF's cost of funds. The spread on LICHF's incremental loans has increased to 2%+ and we expect this to sustain, given its competitive loan pricing and cost of funds. We believe current valuations do not factor in sustained spread improvement. The stock is set for a re-rating; buy.

Large share of market borrowings favours LICHF

Over the last two years, LICHF has diversified its borrowing profile significantly. Share of bank borrowings has declined from 25% to 10%, while the share of market borrowings has increased to 90%. In the last 18-24 months, while the repo rate has been cut 175bp, banks have cut rates only by 75-100bp. G-Sec yields have fallen more. As a result, HFCs with large share of bank borrowings have not benefited as much as LICHF.

Financials snapshot

Shareholding pattern (%)

Continued RBI OMOs and repo rate cuts to drive bond yields lower

In 2014 and 2015, inflation was high; to counter this, the RBI sold bonds worth R1 trn in the market, causing liquidity deficit. With easing inflation, the RBI started purchasing bonds through open market operations (OMOs) in December 2015. Since then, its overall bond purchases have been close to R1.9 trn. The OMOs have resulted in G-Sec yields dropping 100-120bp in the past 6-9 months. Our Economist expects further OMOs of R700 billion over FY17.

Repo rate and G-Sec yields are highly correlated. Over 2001-03, when the RBI cut repo rate significantly, G-Sec yields fell even more sharply. Our Economist expects at least one repo rate cut by the end of FY17, with another 1-2 rate cuts in FY18. When we published our last update on LICHF in August, G-Sec yields were 7.1%; since then, they have fallen to 6.7%. Given continued RBI OMOs and reduction in repo rate over the next 6-12 months, we believe G-Sec yields could drop further over the next 12 months. LICHF has NCDs worth R220 bn (20% of total outstanding borrowings) maturing in FY17 and FY18, which would help it to save 30-40bp in cost of funds over the next two years. Among all HFCs in our coverage, we believe LICHF would be the biggest beneficiary of falling yields.

Spread of AAA yields over GSec yields have narrowed significantly

Another big impact of the RBI OMOs has been that AAA bond spreads over Gsec yields have narrowed significantly. While the average spread has been 80bp in the past one year, it had increased to 1.5% in March 2016 due to the liquidity deficit. However, since then, spreads have come off significantly to around 35bp

today, with most of the spread compression in August and September. Given the liquidity situation today, we expect spreads to sustain at these levels.

2% spread to sustain despite stable share of LAP

Over the last five quarters, LICHF has grown its LAP book rapidly. The share of LAP increased from 4.6% in 4QFY15 to 9.3% in 1QFY17. On an incremental loans basis, the share of LAPs increased from 17% in 1QFY16 to 37% in 1QFY17. Incremental spread increased from 1.74% to 1.98% over the period. This has helped shore up NIM to 2.6-2.7%. However, the management has indicated that it would not increase the share of LAP any further. While this would put pressure on incremental yields, LICHF would get the benefit of lower incremental cost of borrowings due to falling G-Sec yields. We believe LICHF would maintain incremental spread above 2%. We believe consistently achieving 2% incremental spread over the next few quarters would be a trigger for the stock to re-rate in line with peers.

Loan pricing competitive

LICHF is currently originating pure floating rate loans at ~9.5% and other home loans at 10%. Banks are also originating loans at 9.3-9.5%. We believe banks would be averse to reducing home loan rates further, as they would have to reduce MCLR, as a result of which the whole loan book would get re-priced. Hence, we believe LICHF would not need to reduce rates substantially to remain competitive.

Robust loan growth to continue

LICHF has a granular loan book with retail home loans comprising 88% of the total book and the LAP book comprising an additional 10% of the total book. Since around two-thirds of its loan sourcing is from LIC agents, LICHF is able to access the length and breadth of the country. We believe LICHF would be a big beneficiary of the tax incentives announced in the FY17 Union Budget. It could gain some share from banks due to competitive pricing. We expect loan book CAGR of 19% over FY16-19.

Asset quality has remained strong consistently

LICHF has robust asset quality, with GNPA of 0.59% and NNPA of 0.29%. Asset quality in individual loans is even better, with GNPA of 0.35%. This compares very well with its private-sector housing finance peers. The company has sustained good asset quality over the past several years due to its stringent underwriting discipline. Loan-to-value ratio on incremental disbursements is 47%, down from 50% in FY15. Instalment-to-income ratio is 32%, down from 34% in FY15. Asset quality is expected to remain stable.

Re-rating on the cards; Buy

LICHF stands to benefit significantly from the growing demand for mortgages coupled with falling interest rates. Over the past few quarters, change in loan mix has led to 2%+ incremental spread. We expect 2% incremental spread to continue and believe that the stock price does not factor in sustained spread improvement due to falling G-Sec yields and narrowing AAA spreads. Post an earnings growth of 22% in FY16, we expect this momentum to sustain and model 23% PAT CAGR over FY16-19. RoE is set to cross 20% in FY17, which would drive further re-rating. The stock trades at 2.4x FY18e BV, a discount to peers. Buy with a target price of R758 (3x FY18E BV).

6. PNB Housing Finance's Rs 2,500 cr IPO to hit markets in November

PTI

Having secured markets regulator SEBI's nod, PNB Housing Finance is likely to launch the initial public offering (to raise Rs 2,500 crore as early as next month.

The leading housing finance firm had filed IPO papers with SEBI in July and got final approval last week. "The board will meet soon to finalise the dates. The IPO is likely to hit markets in November," a source told *PTI*.

With over two decades of specialised experience in housing finance, PNB Housing has a robust network of branches and provides housing loans to individuals and corporates for construction, purchase, repair and upgradation of houses.

It also provides loans for commercial space, loan against property and loan for purchase of residential plots. "We plan to list the company to enhance our visibility and brand name among existing and potential customers," the source added.

PNB Housing Finance would be using the proceeds from the share sale mainly towards augmenting its capital base.

The company plans to raise up to Rs 2,500 crore through the initial share sale and a portion would be reserved for the employees.

Promoted by Punjab National Bank which holds 51 per cent stake, PNB Housing Finance commenced operations in 1988. Its stake will come down to around 35-37 per cent post the share dilution in the IPO.

So far in 2016, as many as 22 companies have hit the markets with initial public offering, the largest being ICICI Prudential Life Insurance's Rs 6,057—crore IPO.

For the year ended March 2016, PNB Housing Finance reported a profit after tax of Rs 327.57 crore while revenue from operations stood at Rs 2,699.54 crore in the same period.

Kotak Investment Banking, BofA Merrill Lynch, JM Financial, J P Morgan and Morgan Stanley are the global coordinators and book running lead managers for the proposed issue.

The company plans to grow business and loan portfolio by consolidating position in key geographies as well as by expanding into specific target markets such as the affordable housing segment.

7. Refill your health cover

PUNEET SAHNI

Restoring benefit to your policy can help you in case of unforeseen events

'Reinstatement' or 'restore benefit' is a word that you may have come across in the context of health insurance policies. Here we explain what it means and how this could be a great help to you in case of unfortunate events.

Reinstatement or restoration is an opportunity to once again make available the sum insured that was originally exhausted due to claims. This benefit is of great value proposition for all health insurance customers.

Conditions for reinstatement

There are quite a few products available in the market providing this benefit but we all need to take this information with a pinch of salt.

This is because most of the products that offer reinstatement are available with strings attached. For instance, one of the most common conditions is that reinstatement or the restore benefit is available only for different illnesses and not for the same illness.

This can be understood by the following example: Mr A suffered from cancer and had to undergo chemotherapy, due to which his sum insured of ₹5 lakh was exhausted. Unfortunately, he had a vehicular accident and developed a fracture following it. If he has a health insurance policy with reinstatement benefit, the reinstatement sum insured would be available for utilisation towards hospitalisation.

However, if Mr A had to undergo further chemotherapy sessions, then this reinstated sum insured is not available for utilisation.

Also, an important point to note in most policies is that reinstatement kicks in only on complete exhaustion of the sum insured and cannot be utilised for partial exhaustion. However, the above restrictions that are explained are not applicable to all policies.

There are certain policies in the market that offer full reinstatement without any conditions! Such policies essentially provide a double sum insured at half the price, which means if you buy a sum insured of ₹10 lakh, the sum insured available for utilisation is equivalent of ₹20 lakh. Such policies are truly reinstatement benefit policies.

A third point that requires your attention is that reinstatement is never available for the first claim. For example, if you have a policy of ₹10 lakh and made a claim of ₹11 lakh, then you will not get the benefit of reinstatement in that claim, but you would still get the restoration of the sum insured in your account for future utilisation within the same policy period.

Not so expensive

Whenever you wish to buy a policy that has reinstatement benefit, pay close attention to the conditions of reinstatement.

If you find it difficult to understand insurance jargons, check with your insurance agent or the company call centre for an explanation of the terms of utilisation of the reinstatement benefit.

Also, you may note that both health insurance policies with reinstatement benefit and simple health insurance policies without reinstatement benefit provide coverage with almost a similar range of premiums.

For example, premium for a health insurance policy with reinstatement benefit for sum insured of ₹10 lakh for a 30-year-old individual would be in the ₹10,000-₹12,000 range.

Ensure that your policy has good reinstatement benefits, so that you remain fully prepared for unfortunate events.

The writer is Head of Product Development, SBI General Insurance

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY