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Dear Comrades,

19th October , 2016

News of Interest 19th Oct

QUOTE OF THE DAY

“GOOD, BETTER, BEST. NEVER LET IT REST. 'TILL YOUR GOOD IS BETTER AND YOUR BETTER IS BEST. “

ST. JEROME

- 1. INFLATION TO SOFTEN ON GOOD RAINS, ECONOMIC REVIVAL VISIBLE: MPC**
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Business standard

1. Inflation to soften on good rains, economic revival visible: MPC

The outlook for economic expansion also seemed to be better with signs of revival

[Abhijit Lele](#) & Agencies

The Reserve Bank of India (RBI) has released the minutes of the first meeting of the six-member Monetary Policy Committee (MPC) on October 3 and 4. The minutes showed that while all the members favoured a cut in repo rate by 25 basis points, they also felt inflation would soften in the days to come on back of good monsoon. The outlook for economic expansion also seemed to be better

with signs of revival, the members felt.

According to the minutes, the members were of the opinion that the rate cut was in line with the target to keep retail inflation within a band of four per cent, plus or minus two percentage points, while supporting growth.

The members felt growth momentum would improve with monsoon boosting agricultural growth and rural demand, and also by the stimulus to the urban consumption spending from the Pay Commission's award.

The accommodative stance of the monetary policy and comfortable liquidity conditions should support a revival of credit to the productive sectors, the minutes added.

Referring to evolving inflation trajectory, MPC member Ravindra Dholakia said some of the upside risks to inflation discussed in the MPC meeting, particularly arising out of the award of the 7th Pay Commission, were "largely statistical". Looking forward, the probability of inflation turning up from the current level was reasonably less, he added.

Another member, Pami Dua, a faculty member at the Delhi University, said the Consumer Confidence Survey presented an encouraging outlook for the price scenario as well as future economic conditions.

While Industrial Outlook Survey suggested some increase in input price pressures in the manufacturing sector in the short-run, this would not transmit to higher selling prices, she said.

Chetan Ghate, faculty member at Indian Statistical Institute, said expectations of future inflation at the monetary policy horizon were closer to the inflation target, which was also expected to contribute to low and stable inflation.

While commenting on economic growth path, Dholakia said the potential growth path of the Indian economy was gradually moving up, particularly in response to several reform measures. According to him, there is substantial under-utilisation of capacity in the system and there is no major risk to inflation if the output gap closes fast.

Ghate said there were signs of revival of economic activity, which should be nurtured.

Seconding his views, Dua said lacklustre private investment spending and unused capacity provided a window for a reduction in the policy rate.

RBI governor Urjit Patel said while the central bank's model-based projections indicated upside risks to the target, a calibrated policy judgment was warranted, given that some space for policy action had opened up with the fall in inflation in the August reading.

"Nonetheless, inflation outcomes in the fourth quarter will have to be carefully and continuously monitored as upside risks, albeit lower now than before, persist," the governor said.

According to the minutes, RBI Deputy Governor R Gandhi said the risks to India's growth from a still-fragile global economy have increased, particularly through the trade channel. However, risks to inflation from global factors might be easing, going by the observed high intensity and spread of global disinflation.

RBI Executive Director Michael Debabrata Patra said several parts of the economy were languishing, but other parts such as agricultural activity, steel production, public investment in roads, railways and inland waterways were mending and coming together for a potential revival.

The next meeting of the MPC is scheduled for December 6 and 7. Retail inflation based on Consumer Price Index in September dropped to 13-month low of 4.31 per cent, mainly on account of easing vegetables prices, creating headroom for further rate cut by the Reserve Bank in the coming months.

NOTES FROM RBI

- RBI released MPC minutes on October 3,4
- According to the minutes rate cut was in line with the target
- It tries to keep retail inflation within a band of 4%, while supporting growth
- Retail inflation dropped to 4.31%
- It was mainly on account of easing vegetables prices
- The next meeting is scheduled for Dec 6 and 7

2.Banks' finances to improve by this year-end

Asset sales, turnaround of stressed companies to boost banks' balance sheets

Dev Chatterjee & Avishek Rakshit

Impressive turnarounds and asset sales by stressed companies are giving confidence to Indian banks as their financial performance will improve in a couple of quarters.

Since January this year, stressed Indian companies sold assets worth Rs 1,50,000 crore to both foreign and local players (see chart). These companies would be able to repay a significant part of their debt and reduce the stress on the banking system.

According to analysts, Essar's repayment itself would account for 10 per cent of the systemic non-performing loans (NPL). In June 2016, the gross NPLs of 40 listed banks stood at Rs 6,32,804 crore.

In the process, banks would be able to cut their own non-performing assets (NPAs) by a significant amount as new owners with better credit ratings take over these companies, bankers said. State Bank of India and ICICI Bank would be the big beneficiaries as they had the largest exposure to stressed corporates.

Global financial powerhouse, Morgan Stanley estimates that Essar Rosneft deal alone could reduce ICICI Bank's below-investment-grade exposure to stressed sectors as of June 2016 by 15 per cent. Besides, sale of assets worth Rs 18,320 crore by another troubled group, Jaiprakash Associates to UltraTech Cement and Orient Cement and Anil Ambani's Reliance Group asset sales of Rs 26,600 crore would also help banks reduce their exposure by the end of the year.

"Asset sales by corporates are helping banks to reduce their mountain of bad debt. Banks are also supporting these transactions by taking a haircut. Ultimately banks are the gainers as evident from the stock market reaction,"

said a banker asking not to be quoted. The S&P BSE Bankex gained 2.4 per cent on Tuesday.

Ashwani Bhatia, President and Chief Operating Officer at SBI Capital Markets, said, "The system is definitely in resolution phase and the pace will pick up in the coming months. Decision making by lenders within consortium also needed to be quickened." However, the benefits of resolution would flow in gradually as addressing issues like shareholding, taxation and court approvals take time, he said.

On Monday, State Bank of India Chairman Arundhati Bhattacharya had cited examples of Haldia Petrochemicals, Suzlon and Jindal Stainless which were doing much better after resolution on the debt front or sale of assets. SBI, she said, was working with 10-15 more such stressed accounts and the bank was targeting 2017-end to find solutions for them.

Take, for example, Haldia Petrochemicals. After halting production last year on account of shortage of funds, it was able to turn around operations, thanks to improvement in both market conditions and availability of capital from banks. The promoter, Chatterjee Group, and SBI infused Rs 450 crore into the company to help it resume production. Gradually, the borrowing increased to Rs 900 crore as other banks, including the Punjab National Bank, ICICI Bank and IDBI, also chipped in. "This resulted in the company's circulating capital. At the same time, the market also started reviving and so did we," a Haldia official said.

On the other hand, after Suzlon Energy sold its German unit, Senvion, for \$1.16 billion in January 2015, it managed to reduce its net loss from Rs 6,538 crore reported in December 2014 quarter to Rs 260 crore as of June 2016 quarter. Its interest cost reduced from Rs 555 crore in March 2015 to Rs 304 crore in June 2016, giving it a significant relief in finance costs.

For the June quarter, Jindal Stainless announced that its earnings before interest, tax, depreciation and amortisation (EBITDA) rose by 100 per cent to Rs 280 crore. This was mainly due to its asset sale plan that reduced its debt burden of both term loan and working capital facilities.

All these success stories would help banks to support similar deals of other large corporates that are stuck due to a global commodity meltdown and changes in regulatory regime.

Financial Express

3. Stressed assets: RBI may tweak S4A norms as banks unable to leverage scheme

The Reserve Bank of India is likely to tweak the guidelines for the Scheme for Sustainable Structuring of Stressed Assets (S4A), as banks have not been able to make much headway with the scheme, senior bankers told FE.

By: [Shakti Patra](#)

The Reserve Bank of India is likely to tweak the guidelines for the Scheme for Sustainable Structuring of Stressed Assets (S4A), as banks have not been able to make much headway with the scheme, senior bankers told FE.

The rules, they said, might be diluted – the sustainable portion of the debt need not be 50% of the total as is currently mandated, but a smaller share. In other words, if lenders decide just 40% of the total debt is sustainable going by the current cash flow, they can initiate the S4A. However, that would require them

to convert more than 50% of the existing debt into redeemable cumulative optionally convertible preference shares.

Currently, banks need to bifurcate the debt into two parts – sustainable and unsustainable – and the sustainable portion must be at least half the total debt. Bankers also need to ensure that the current cash flow is adequate to service the sustainable debt. Some bankers have pointed out that future cash flows too need to be taken into account. Right now, at most companies, cash flows are good enough to service just 35-40% of the sustainable debt. Should the RBI allow future cash flows to be taken into account, the amount of debt sustainable would go up.

Arundhati Bhattacharya, chairman of State Bank of India, had pointed out that if only the current cash flows were considered, it would be difficult to identify projects that have 50% sustainable debt. The regulator, she said, should take into consideration the fact that the debt would come down once the S4A is invoked, resulting in lower outflows to service the loan.

“If you’re projecting only on the basis of current cash flows, you’re not taking into consideration their interest flows, which will go down when you do the cut in the debt. If you take the upside, the sustainable debt may go to 70-80%,” Bhattacharya had said.

RBI governor Urjit Patel had indicated in early October that the central bank would be reviewing efforts of banks to resolve the issue of non-performing loans. “We will deal with the situation with firmness but also with pragmatism so the economy does not feel any lack of credit to support the growth in the economy,” Patel had said at a press conference following the monetary policy review.

Among tools that bankers have to deal with stressed assets are SDR (strategic debt restructuring), outside SDR and the S4A scheme. Bankers have initiated the SDR scheme for around 18 companies. Gross non-performing assets in the banking system were more than R6 lakh crore at the end of June.

4. Loans against investment: Interest rates on loans against PPF, MF, insurance policies lower than on personal loans

Interest rates on loans against PPF, mutual funds and insurance policies are lower than that on personal loans

By: Saikat Neogi

Investment in financial products like Public Provident Fund (PPF), mutual funds, life insurance not only helps create long-term wealth, but can also act as a contingency fund as one can avail loans from banks or non-banking financial companies against them in case of any emergency. The interest rate on loans against these products will be much lower than personal loans and disbursement will be quick.

Loan against PPF

A PPF account holder can avail loan between the third and sixth financial year after opening the account, of up to 25% of the outstanding balance at the end of the second year preceding the year in which the loan is applied for. For example, if the loan is applied in 2016-17, 25% of the outstanding account balance at the end of 2014-15 will be considered for the loan. No loan can be taken from the seventh year onwards, as it will be partial withdrawal. The interest rate will be 2% more than the current interest rate applicable on the PPF account. As the

current rate of interest on PPF is 8.1%, the loan interest rate against PPF will be 10.1%, which is much lower than the 18-24% charged by banks for personal loans. The borrower can repay the loan in 36 months and one does not need to mortgage anything.

Loan against mutual funds

Banks and NBFCs offer loans on the value of units held in the folio of an investor's mutual fund account after seeking a lien on the units in the name of the bank. Once the loan is repaid, the bank will lift the lien and the investor gets the rightful ownership of his mutual fund units. Lien gives the bank the right of ownership to hold or sell the funds. To request for a lien transfer to the bank, the investor will have to request the fund house for a lien on his units in favor of the bank.

For equity-based mutual funds, one can get as much as 50% of Net Asset Value (NAV) as loan amount. The interest rates for loan against mutual funds is lower than personal loans and is decided by the bank after weighing the risk in each application.

However, not all mutual fund units are eligible for a loan as it is given against a list of approved mutual funds or schemes as determined by the lending bank. An investor cannot redeem any units during the loan tenure and if he defaults on repayment, the bank can invoke the lien and redeem the units for loan repayment.

Loan against life insurance

While life insurance protects your family and finances, the policy can be used to raise a loan. It is an ideal tool to monetise a long-term financial security instrument for short-term financial needs.

The loan is given by banks against traditional life insurance, including endowment and money back features and even linked policies. However, banks do not give loan against term plans.

A policyholder can take a loan against the surrender value of a whole life insurance policy if he has paid premiums for at least three years. The loan amount will be decided on the surrender value, which can be up to 80% against traditional plans with guaranteed returns. For linked plans it will be on the fund value. The interest rate will depend on the premium already paid as more the premium amount and number of premiums paid, the lower the rate of interest charged. The loan has to be repaid during the term of the policy.

5. Reserve Bank of India to cut rates in early 2017, aided by tame inflation

The Reserve Bank of India is expected to take advantage of expectations that inflation will remain low in the near-term and cut interest rates again early next year with an aim to boost already-solid growth a little bit more, a Reuters poll found.

By: [Reuters](#)

The Reserve Bank of India is expected to take advantage of expectations that inflation will remain low in the near-term and cut interest rates again early next year with an aim to boost already-solid growth a little bit more, a Reuter's poll found.

New RBI Governor Urjit Patel and his six-member Monetary Policy Committee used the same rationale for their surprise 25 basis point (bps) cut to 6.25 percent earlier this month, the lowest since November 2010.

Inflation cooled to a 13-month low of 4.31 percent in September and the latest Reuters poll of economists expect it to average 4.8 percent in the January-March quarter of 2017, just under the RBI's near-term target.

"The significant run-up in CPI inflation between April and July was mainly driven by food prices. But thanks to normal rains, it could reverse quickly, taking inflation to well below (the) RBI's early-2017 target of 5 percent," wrote Pranjul Bhandari, chief economist for India at HSBC.

Since the start of 2015, the RBI has chopped 175 bps from its key repo rate. But after the next expected cut to 6.0 percent, the central bank is forecast to hold rates steady for the rest of the 12-month survey horizon.

A further rate cut would help the Indian government in its efforts to boost economic growth to above 8 percent.

It was last measured at 7.1 percent in the March-June quarter, one of the strongest rates in the world but still not fast enough to create enough new jobs to absorb all the one million people who join the workforce every month.

The poll forecast gross domestic product would grow 7.7 percent in the fiscal year to end-March 2017 and 7.8 percent in the following year, slightly more than the International Monetary Fund's latest projection of 7.6 percent for both years.

HSBC's Bhandari, who is forecasting 7.3 percent growth for next year, wrote: "...higher urban consumption supported by government wage hikes, sufficient banking sector liquidity and robust FDI inflows are likely to keep growth buoyant."

India's government, led by Prime Minister Narendra Modi, has introduced a raft of new economic policies since coming into power two years ago, most importantly a goods and services tax bill that will replace multiple federal and state levies and transform the economy into a common market.

Economic Times

6. Bank informs RBI of security breach: Axis suffers cyber attack, hires EY to probe damage

By Sugata Ghosh & Sachin Dave

A month ago, an official of Axis Bank BSE -0.39 % -- India's third largest private sector lender -- received an unexpected telephone call. The caller, an engineer at Kaspersky Lab, the well-known Moscow-headquartered cyber security firm, rattled off the names of several Axis computers which, he claimed, have been breached.

The Kaspersky man said his firm had stumbled on the information in the course of a separate probe. When an Axis team looked into the bank's servers, it found out that there was indeed an unauthorized login by an unnamed, offshore hacker.

Last week, Axis filed a preliminary report about the breach to RBI. The bank has hired EY, the audit and advisory firm, to carry out an investigation.

Till now there are no reports of any fund transfers but the bank and EY are trying to figure out the extent of damage, data loss if any, and most importantly whether the virus is still crawling in the institution's server zone, said a banker who is aware of the breach.

Responding to an email questionnaire from ET, a bank spokesperson said, "Axis Bank, like many other large financial institutions, often receives security threats from across the globe. The bank has strict security protocols and procedures in place and all its online properties are monitored round the clock by its in-house team of security experts.

The bank also engages best in class international and national agencies who regularly identify and neutralize threats and audit the Bank's online ecosystem." "Safety and security of our systems and processes is of paramount importance to us and we constantly monitor and are vigilant in our efforts to combat any potential threats. We would like to state that there has been no monetary loss."

In cyber parlance, a malware creeping into a bank's server -- with the possibility of the virus finding its way to multiple servers -- is known as "lateral movement" and can pose, what is known as, Advanced Persistent Threat (or, ABT). "Such attacks," said the system head of another large bank, "are usually the handiwork of Chinese or East European hackers. In contrast hackers are amateurs," said the security chief of a large local bank.

Recently, a team of Pakistani hackers had temporarily defaced the website of a large Indian depository. In early August, a hacker from across the border, who called himself Faisal, defaced the website of a large public sector bank by inserting a malicious page and trying to block some of the bank's e-payment services.

A bank runs multiple servers which house a mountain of information and details of various operations like credit cards, ATMs, real time gross settlements, ATMs and Swift -- the global financial messaging service banks use to move millions of dollars every day. RBI has advised bank chairmen to review funds lying in their bank's (overseas) nostro accounts and carry out hourly reconciliation of payment emails by comparing outward messages with SWIFT confirmations.

Over the past few years, banks have been fighting cyber strikes like "distributed denial of service" (or DDoS) which slows down a bank's system to frustrate customers, worms that make ATMs spew out cash, and some that can divert funds to a secret destinations. Most Indian banks, including institutions which are listed abroad, keep cyber-attacks under wraps and rarely inform the regulator.

7. Suryoday Micro Finance to hire hospitality staff for new venture

NS VAGEESH

Suryoday Micro Finance, which is starting a small finance bank (SFB), plans to hire staff from non-banking industries, such as hospitality, to beef up the customer service experience.

R Bhaskar Babu, CEO, said the availability of technology for a range of functions had made it imperative to address customers effectively and provide them with a good experience.

"I don't want a banking specialist to come and replicate what he has done in some other bank," said Bhaskar Babu.

“Banking is a simple business and we intend to keep it simple. We are not into derivatives or anything complicated. We need good technology, good processes and a culture of customer service to serve this segment.”

Suryoday has 2,300 people on its rolls now; this will go up by about 700 in the next one-and-a-half years, and maybe more if the expansion is faster, Baskar Babu said. Among the departments and functions which would have to be newly staffed include compliance, legal, technology, risk, branch banking and marketing — functions that didn’t exist in a meaningful manner earlier.

But the key change is going to be in setting the culture right — and Baskar Babu said he had spent a considerable amount of time on this aspect.

The move to recruit people who have worked with restaurants or hospitals is part of this initiative and comes from Baskar Babu’s own observation of the superior service rendered by select individuals working in this demanding industry segment and the difference they make to customer perception.

Mixed background

Suryoday plans to launch SFB operations with a branch of four-five staff members that may include one person from a non-banking background with the responsibility of providing a superior customer experience.

Going forward, that ratio could alter to having one person with a banking background and the rest from other backgrounds. These people would be the true brand ambassadors for the bank, he said.

The focus on providing a good customer experience came from looking closely at customer experience in the existing branches of other banks, explained Baskar Babu.

A customer who wants to open an account often doesn’t know whom to approach at the branch — and is probably tossed about from counter to counter. Many customers stand and wait for the staff to give them attention and feel lost.

That experience needs to change, he pointed out. There are a number of educated people also who need help for digital needs. These executives will take care of such requirements.

Elaborating further, he said, the quality of the reception — the smile, the greeting and warmth of welcome — plays a part in making the customer feel at home. Even something as simple as how a customer would like to be addressed is important — Mrs or Ms, first name or surname?

“These are subtle things, where lots of gaps have been left by incumbents,” observed Bhaskar Babu. “It is impossible for them to change now. We will try to get the basics right. Then the scale can be improved.”

8. Bank of Baroda gets semi-naming rights for Sikanderpur metro station

KR SRIVATS

In an innovative marketing initiative, Bank of Baroda has acquired the semi-naming rights of Sikanderpur Metro Station in Gurugram. The station will be renamed “Bank of Baroda Sikanderpur Metro Station”.

This is the first time that a public sector bank has bagged the (semi) naming right of a metro station.

Sikanderpur, which is an interchanging metro station, is the first and only one that directly connects to Gurgaon Rapid Metro.

"Acquiring the semi-naming rights is a recent concept in India for branding purpose. We are happy to announce that Bank of Baroda, maintaining its tradition of being a pioneer in various initiatives, will again be the first public sector bank to foray into such a unique branding venture. Bank of Baroda Sikanderpur will be one of the biggest brand-building platforms for the bank," BB Joshi, Executive Director, BoB, said in a statement here.

Enhanced visibility

About 85,000 people commute by this station every day, aggregating to a whopping three crore people per annum.

The initiative is expected to enhance the visibility of BoB and reposition it in a different innovative branding league.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**