



**ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION**  
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Dear Comrades,

23<sup>rd</sup> August , 2016

News of Interest 23rd Aug

QUOTE OF THE DAY

“YESTERDAY IS NOT OURS TO RECOVER, BUT TOMORROW IS OURS TO WIN OR LOSE.”

LYNDON B. JOHNSON

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Financial Express

**1. Govt can't expect RBI to do everything for growth: Bank of Baroda chief**

There should also be some focus on employment generation, she said, when asked for a reaction on the announcement of Urjit Patel as the next Governor of RBI

By: PTI

State-run lender Bank of Baroda Managing Director and CEO P S Jayakumar today said the onus of recovery is on the government and not Reserve Bank.

He said the government needs to pay vendors on time for services, ensure the projects perform and improve the legal system by upgrading enforcement processes.

"I think a lot of onus on the recovery is also on the government... expecting the Governor of RBI to solve the problems is (not correct)... the real issue is elsewhere," he said, speaking at annual conference of the Indo American Chamber of Commerce here.

The chief of Bank of Baroda, which reported record losses in two immediate quarters after Jayakumar took over, complained that the government is the largest litigator in the country and most cases keep getting escalated.

Apart from this, there is a need for the government to look into asset resolution platforms like upgrading the Debt Recovery Tribunals and implementing the Bankruptcy Code at the earliest, he said.

Project delays was one of the most important pain points for banking system, which is facing a huge spike in NPAs (non performing assets), which has hurt profitability because of higher provisioning requirements. Even Jayakumar alluded to the pain point by mentioning the National Highways Authority whose works getting stuck has led to NPAs.

State Bank of India Chairman Arundhati Bhattacharya seemed to support Jayakumar, stating that a bulk of macroeconomic challenges has been settled and it is asset resolution which needs our attention now.

There should also be some focus on employment generation, she said, when asked for a reaction on the announcement of Urjit Patel as the next Governor of RBI.

She said the Government has started campaigns like the 'Make in India' and 'Digital India', and our focus now should be on what more needs to be done to ensure their success.

American brokerage Citi India chief economist Samiran Chakraborty said the focus should be to make it an investment demand-led recovery rather than a consumption-led one.

It will need up to five years for the credit growth to recover fully, he said.

Bhattacharya, however, said it will not take so long and estimated a time period of 2-3 years for the same.

She added the credit growth in FY17 will be better than that in FY16.

The country's largest lender is also mulling to upwardly revise its FY17 credit growth guidance to go over the initially estimated 12 per cent.

## **2. Employees Wage Ceiling for medical/cash benefits may rise from Rs 15,000 to Rs 25,000; here's how**

**Employees' State Insurance Corporation (ESIC) is considering raising the wage ceiling for mandatory ESIC coverage (medical/cash benefits) to R25,000 per month from R15,000 now, in sync with the rise in minimum wages in the country .**

By: Surya Sarathi Ray

Employees' State Insurance Corporation (ESIC) is considering raising the wage ceiling for mandatory ESIC coverage (medical/cash benefits) to R25,000 per month from R15,000 now, in sync with the rise in minimum wages in the country. Director general (DG) Deepak Kumar speaks to Surya Sarathi Ray, sharing the corporation's future plans. Excerpts:

**With minimum wages being increased, do you plan to raise the current threshold limit of R15,000 per month for ESIC coverage?**

Yes, there is a proposal to raise it to Rs.25,000. It is an agenda item for the corporation's next meeting early September. Once we get the nod of the ESIC members (comprising representatives of employers, employees and the government), we will issue a notification with the approval of the Centre.

With the minimum wage being raised to over Rs.14,000 for unskilled workforce in Delhi and to higher levels for semi-skilled and skilled workforce, how many insured persons (IPs) will go out of the purview of the ESIC in Delhi alone?

At present, we have a little over two crore IPs throughout the country. We haven't made any estimate on how many people will be out of ESIC due to the Delhi government's decision, but I'm sure majority of (the IPs in Delhi) will.

Your administrative expenditure is said to be very high and this is believed to inflate the cost of ESIC benefit to the IPs (these expenses increased from 7.5% of the corporation's total 'revenue income' in 2010-11 to 8.9% in 2014-15).

The charges in absolute terms cannot be brought down as we are expanding throughout the country. We don't get any financial help from the government. We collect 4.75% (of the wages) from the employers and 1.75% from the employees (for each IP). There is no separate administration charges that we levy, unlike in the case of Employees' Provident Fund Organisation which also uses the proceeds from a 0.85% impost to run the administration.

**Is there any plan to bring down the contributions from the employers and employees to the ESIC?**

As I told you, we are expanding (ESIC coverage). But in certain areas where we are expanding, healthcare facilities may not be up to the mark. We have taken a decision that in those areas, since we may not be able to provide satisfactory medical care to the beneficiaries, we will be taking reduced contribution from the insured persons and the employers in the range of 1% and 3%, respectively. The relevant rules are being notified by the labour ministry.

We have 151 hospitals across the country of which 36 are directly run by the corporation and the rest by the states, though the infrastructure in all cases belongs to us. We pay an average of Rs.2,150 per IP to the states. Now, if the person needs better medical facility, we allow our hospitals to refer them to super-specialty hospitals and in such cases too, we bear the entire financial burden. Taking this into account, we spend an average of R2,800 per IP per year. We want to raise it to around Rs.5,000. So, reducing contributions is not practical.

However, the expenses we incur differ across states. While in Delhi, it is Rs.7,000, in some other states it is as low as R1,500. This reflects the wide disparity in the standards of medical facilities among states. We will be setting up many more hospitals in the coming years.

## **You have got a huge reserve of Rs.42,000 crore. What do you plan to do with it?**

Our plan is to use this for expansion — creation of new health facilities and upgrading the existing ones.

## **What are the expansion plans?**

As of July last year, when the Prime Minister launched the second phase of the expansion programme, we were operating in 393 districts. Even in those districts, our operations hadn't reached every nook and corner. So, our first target is to take our facilities to all areas of the districts we are already present in. We have so far managed to do so in 215 such districts. In the second phase, we plan to reach out to the district headquarters of the remaining districts in the country by this September-end and to cover every nook and corner of the country by April next year.

## **You also run hospitals and medical colleges. Does this reduce the focus on the core activity of providing medical cover for the wage earners?**

There were plans to enhance the number of medical colleges from five now, but we have dropped that plan. While we will not be setting up any new medical college, the existing ones will be handed over to the states. Our governing Act provides for setting up of medical colleges, but we have taken a decision last year that our first priority is to provide healthcare facilities.

## **3. Urjit Patel as RBI Governor: Here's a sneak peek into what's in store**

There are already statements made that Urjit Patel is an inflation hawk—though one does not quite know what this can mean, considering that there is an MPC in place which may constrain subjective judgments

By: Madan Sabnavis

Suggesting an agenda for the new Governor of RBI is both improper and pompous given that the person chosen to head the central bank is an accomplished person from the system who knows what to do and does not require any advice.

This said the markets will be watching for signals from the new Governor as this has become a habit where there are certain expectations that are raised which create a modicum of volatility when not realised. The immediate checkpoint is the management of the forex outflow resulting from the redemption of FCNR (B) deposits which would be around \$25 billion. In August 2013, when this swap facility was introduced, our forex reserves were around \$276 billion, but are now higher by around \$90 billion. Prima facie these outflows should not make a dent with limited volatility being witnessed in the interim period, just like what was witnessed when the Brexit vote was counted. The market however, will be keen to take a clue from the RBI stance on exchange rate.

There is always a compelling argument that a weaker rupee would be good for exports, and in case the rupee is allowed to move towards 68-69 to the dollar, it would be helpful for the cause. On the other hand if RBI ensures a smooth flow so that the rupee remains within the present band of upto 67, then the message will be that, even in the future, the central bank will work towards maintenance

of stability in the exchange rate. RBI Governors somehow get typecast on their view of the rupee; this impacts future movements too.

The second issue that will keep everyone in the financial sector guessing is the conduct of monetary policy. There are already statements made that Urjit Patel is an inflation hawk—though one does not quite know what this can mean considering that there is an MPC (Monetary Policy Committee) in place which may constrain subjective judgments. The Urjit Patel Committee had conceptualised the creation of the MPC for setting goals on inflation where the CPI was chosen as the target indicator. Also, the band that was suggested has been ratified by both RBI and government, which really means that RBI would be targeting this rate irrespective of the personal bias of any Governor. Further, as the decision will be based on a consensual approach, the direction is clear. After all CPI inflation of 6% is an objective numbers and cannot be interpreted differently by anyone on the committee.

In a way, the thrust of monetary policy is a given, unless there is a new line of thinking which brings in the growth aspect through a sub-target. This way the twin objectives of growth and stability will be addressed. But this is unlikely to happen as the contours have been well-defined.

The interesting part of this episode will be in the direction of how the MPC functions and how the policy is presented. At present, RBI presents the policy and takes the final view on the content. With the MPC deciding now, the question would be whether it will be RBI or MPC occupying the dais and explaining the reason behind such action. Further, as RBI will be held responsible for the targets being met, how will it respond in case there are divergences for three quarters? Will further action be taken or would it be back to the MPC?

The third, and probably the most important, decision followed by action that would have to fructify pertains to the recapitalisation of PSBs. This is a 'work-in-progress', which has to be logically concluded and is the most difficult part of the exercise. The conundrum is that the public sector banks have high NPAs today and will not be touched by investors. Their asset books have to be cleaned fully before going to the market. Also, the government has to show willingness to give up its stake and bring it down to 51%. Disinvestment has always been a tricky exercise given the pricing problem which often leads to cross-purchase by public institutions of these stake-sales. Also it should be noted that for the kind of growth we are talking of, banks need a lot of capital and are woefully short of the same. As economic growth is still rather stagnant with investment not picking up, the system is able to adjust to the situation in a non-distortionary manner. But, once growth accelerates and investment demand increases, then the system may not be in a position to deliver. This has to be addressed in the next 1-2 years.

The fourth area will be the setting up of the public debt cell or PDMA. This has been on the agenda with several arguments in favour of either having such a specialised agency or continuing with RBI holding this responsibility. A resolution of the same would be likely during Urjit Patel's tenure.

Liquidity management would be another aspect of RBI that could be debated, but considering that the central bank has opted already for moving away from LAF and relying more on OMOs, there is likely to be continuity here which is good for the market. As this has been decided in the earlier monetary policy review where Urjit Patel was also part of the consultations, it may be assumed that this would be business as usual.

One must understand that central banking is a fairly standardised business encompassing conduct of monetary policy, banking regulation and financial sector reforms to the extent that they are related to the banking sector (other regulators come in when insurance, stock markets or pension funds are concerned). The path is always well defined and while the central bank can address regulatory issues, which has been done in quite an exemplary way so far, when they get entwined with government policy (on disinvestment) the road becomes longer. With RBI and finance ministry setting the contours of monetary policy, there is less room for controversy to be stoked, which also brings in objectivity. It can also be assumed that initiatives on financial inclusion, new banks, market development, derivatives, etc would continue in the normal course of business.

Hence, just like there is continuity on Mint Street, the road map is the same with the central banks forcing these issues along the path so that resolution is quite seamless.

Business standard

#### **4. Lending rates to soften only slowly: Banks**

SBI chairperson Arundhati Bhattacharya says banks are not in position to compress margins as they have to provide for credit costs

Abhijit Lele

Bankers' message to Reserve Bank of India (RBI) governor-designate Urjit Patel on the first working day after the announcement of his selection for the top job might not be music to ears. The lending rates would come down only slowly and that too depending on signs of a credit pick-up and comfortable liquidity position.

In the words of State Bank of India Chairman Arundhati Bhattacharya, lending rates will be a function of liquidity and pick up in credit demand. The SBI group, including associate banks, has a 22 per cent share in banking system's business.

Banks are not in a position to compress margins, as they have to provide for credit costs, Bhattacharya said at the annual convention of Indo-American Chambers of Commerce here on Monday. Tepid credit growth, coupled with reduction in lending rates and reversal of interest income on loans treated as non-performing assets, has eroded the net interest margins of banks.

Concurring with her views on the gradual pace of softening of interest rates, Arun Tiwari, chairman of Union Bank of India, said rates were expected to dip by 25 basis points by the end of this financial year. P Jayakumar, managing director and chief executive of Bank of Baroda, indicated a similar amount of decrease in rates before the close of the year.

Samiran Chakraborty, chief economist at Citi India, said for further easing of rates, RBI should be in a position to remove the words "upside risks to Inflation".

Banks' credit growth has remained under 10 per cent for long. For the 12 months ended August 5, it was 9.8 per cent, compared to 8.9 per cent clocked for the previous 12 months, according to RBI data.

Cutting interest rates on loans has been a point of friction between banks and the banking regulator for over a year. RBI began cutting rates from January 2015 and has reduced repo rate, the key benchmark rate, by 150 basis points to six per cent till date. However, banks have reduced loan rates by only 70-80 basis points.

While announcing its monetary policy for 2016-17 in April, RBI moved from a stance of keeping liquidity in deficit mode to keeping it in neutral mode.

Nudging banks to pass on the benefit of softer rates to customers, RBI in third policy review in early said despite easy liquidity, banks had passed past rate cuts into lending rates only modestly.

RBI governor Raghuram Rajan in his cryptic style had said bankers would look for new reasons to prolong the decision for reducing rates.

"Earlier, some bankers said it was the lack of liquidity that was holding rates high; now I hear from some that it is fear of FCNR(B) redemptions that is making them reluctant to cut rates. I have a suspicion that some new concern will crop up once the FCNR(B) redemptions are behind us," he had said.

After reviewing feedback on the working of marginal cost-based lending rate (MCLR), RBI will soon revise the framework. RBI-mandated MCLR regime from April this year to improve transparency in pricing loans.

The substantial pass-through will happen only as corporate credit demand picks up, and public-sector banks, strengthened by clean balance sheets, compete for corporate business, Rajan said in the August policy.

## **5. Govt bets on Patel to balance inflation and growth**

RBI governor-designate's experience will ensure he 'rises to the occasion'

BS Reporter

The government on Monday hoped that the Reserve Bank of India (RBI) governor-designate, Urjit Patel, would "rise to the occasion" and use his experience of handling monetary policy to maintain a balance between inflation and economic growth.

Patel, currently deputy governor at RBI, will take over the top job at the central bank when incumbent Raghuram Rajan demits office on September 4 after completing his term.

"He (Patel) will hopefully control inflation as he has experience with monetary policy," Minister of State for Finance Arjun Ram Meghwal told reporters here. "Patel's appointment is a right decision and in the interest of the country."

Economic Affairs Secretary Shaktikanta Das, who was said to be in fray for the top post at the apex bank, welcomed the appointment of Patel as the 24th RBI governor.

"With his background in monetary economics, monetary policies and his background in other fields, I am sure he will rise to the occasion and he will keep in mind the requirements of monetary policy and the inflation target that has now been laid out in the RBI Act," he said.

The government has set a Consumer Price Index-based inflation target of four per cent, plus or minus two per cent. Inflation had soared to 6.07 per cent in July.

RBI's next monetary policy review is scheduled on October 4.

Das said: "...he will also balance the requirement of growth, which is in fact the mandate as per the amended RBI Act."

Stating that the job of a RBI governor was not just making monetary policies, Das said the central bank head was also the regulator of banks and non-banking finance companies (NBFCs).

"In that role he has to ensure smooth functioning of the financial sector and he also has to look into the flow of credit to various sectors, in particular the requirement of agriculture and MSME (medium, small and micro enterprises) sectors," he said.

Minister of State for Finance Santosh Kumar Gangwar said he hoped that Patel would do well as the RBI governor. "I believe Patel will take the economy in the right direction. Even though he is less experienced, I think he will do the job well," he added.

## **BANKING ON PATEL**

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### **- Minister of State for Finance Arjun Ram Meghwal**

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### **- Economic Affairs Secretary Shaktikanta Das**

*"I believe Patel will take the economy in the right direction. Even though he is less experienced, I think he will do the job well"*

- Minister of State for Finance Santosh Kumar Gangwar

Business Line

## **6. Ashok Chawla to take over as YES Bank non-executive chairman**

PTI

Former CCI head Ashok Chawla will take over as Non-Executive Part-time Chairman of YES Bank from October as the lender has received approval from the Reserve Bank for this appointment.

YES Bank said Chawla's appointment is for a period of three years, with effect from the date of joining the bank.

"Chawla will take charge as Non-Executive Part-time Chairman of the bank with effect from October 30, 2016 upon the expiry of the term of the current Chairperson, Radha Singh," YES Bank said in a release.

He was appointed as an independent director on the Board of YES Bank on March 5, 2016.

A career bureaucrat, Chawla served as the chairman of the Competition Commission of India (CCI) post retirement.

With over 40 years of experience as a civil servant, he held various secretarial jobs with the central government. He also worked with various multilateral bodies and headed public sector enterprises.

Currently, he is the Chairman of NSE and chairs the governing council of The Energy and Research Institute (TERI).

## **7. Canara HSBC OBC Life launches new insurance plan**

PTI

Canara HSBC Oriental Bank of Commerce Life Insurance has introduced a new unit-linked insurance product Secure Bhavishya to protect and meet an individual's future financial needs.

It will help customers build-up a retirement fund which can be used to provide a steady post retirement income, a company statement said.

It offers capital protection by way of minimum guarantee of 101 per cent of all premiums paid as the maturity value, it said.

## **8. Outsourcing norms for insurers to be tightened**

G NAGA SRIDHAR

Insurers will soon find it tougher to outsource activities as the Insurance Regulatory and Development Authority of India (IRDAI) is set to tighten norms.

According to the proposed IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2016, every insurer should put in place a comprehensive outsourcing policy duly approved by the board.

In addition to approval of the policy, the board will also be responsible for clearing a framework to evaluate the risks and materiality of all existing and prospective outsourcing.

This will include assessing management competencies for handling the outsourcing arrangements, given the nature, scope and complexity.

"Undertaking periodical review of outsourcing strategies and arrangements, and establishing a comprehensive risk management programme to cover the risks associated with the outsourced activities will also be the responsibility of the board," the regulator said in an exposure draft.

According to the draft report, outsourcing activities should be distributed amongst a reasonable number of outsourcing agencies to ensure there is no concentration of risks.

### **Better structure**

"The proposed regulations are trying to give a more structured and better shape to outsourcing activities by clearly defining core and non-core activities," Puneet Sahni, Head-Product Development, SBI General Insurance, told *BusinessLine*, adding that the new norms will "positively" impact business processes and customer interests.

A host of activities such as processing, premium collection and claim verifications are generally outsourced in both life and non-life insurance.

The proposed norms should bring in more accountability as outsourcing relationships will be governed by written outsourcing agreements that are legally binding for a specified period that clearly describe all material aspects of the outsourcing arrangement, including the rights and responsibilities of all parties.

Though IRDAI has earlier issued some guidelines, this is for the first time that comprehensive regulations governing outsourcing are being rolled out. "On comprehensively examining the extant norms on outsourcing, the Authority proposes to issue the new regulations," Yegna Priya Bharath, Joint Director (Health), IRDAI, said.

With kind regards,

Yours Comradely,



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