



ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION
(Affiliated to All India Bank Pensioners & Retirees Confederation – AIBPARC)
163/4, Kutchery Road, Mylapore, Chennai - 600004
E mail i.d: aiubparf@gmail.com/ ubioatnng@gmail.com/ suryanarayananram@gmail.com

Com. P.B. Thomas
Chairman
Thiruvananthapuram
M: 09447177456

Com. Nitin Desai
President
Ahmedabad
M: 097277 60641

Com. S. Bagchi
Working President
Kolkata
M: 0983081586

Com. N. Govindarajulu
General Secretary
Chennai
M: 09841089111

Dear Comrades,

23rd November, 2016

News of Interest 23rd Nov

QUOTE OF THE DAY

“DO YOUR WORK WITH YOUR WHOLE HEART, AND YOU WILL SUCCEED - THERE'S SO LITTLE COMPETITION. “

ELBERT HUBBARD

- 1. SBI, HDFC BANK TO ACCEPT UPI PAYMENTS**
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- 3. DEMONETISATION: RBI DOUBLES BALANCE LIMIT FOR DIGITAL WALLETS TO HELP MERCHANTS**
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Business standard

1. SBI, HDFC Bank to accept UPI payments

Transactions through UPI were not picking up as daily transactions through the platform stood at a moderate figure of 10,000

Nupur Anand

With State Bank of India (SBI), the country's largest lender, and HDFC Bank, the second-largest private sector lender, deciding to accept payments made through the Unified Payments Interface (UPI), the digital payment system is likely to see robust growth in the days to come. With this, the number of banks accepting UPI payments stands at 28.

Launched on August 25 this year, UPI has made money transfer simpler by doing away with details such as bank account number, IFSC code, etc. Bankers had hailed it as the 'WhatsApp moment' for payments in India. One can send money by sending a text message. However, transactions through UPI were not picking up as the daily transactions through the platform stood at a moderate figure of 10,000.

This could change dramatically with SBI and HDFC Bank coming on board, says A P Hota, managing director and chief executive officer of National Payments Corporation of India (NPCI), which runs UPI. "SBI commands the largest market share; we were waiting for them to come on board. Now that they're set to go live, we'll start advertising and also ask banks to increase communication to their customers to use UPI."

By March next year, NPCI aims to take up the number of daily transactions to one million. It also expects the number of registered users to go up from two million now to three million within a month.

UPI went live on August 25. By using this application, a customer can transfer money to another person via a unique virtual address (virtual addresses are aliases to a bank account, allowing a customer's account to be uniquely mapped), or mobile number, or Aadhaar number. And, therefore, customers do not need to know the payee's IFSC code, bank account details, etc, thus, making the process simpler.

UPI is built on the existing Immediate Payment Service, or IMPS, which allows real-time transfer of money 24x7, and is also interoperable across banks.

Another distinguishing feature of UPI is that it allows one to send a request asking for payments. As a result, e-commerce and merchants are expected to drive growth as it would allow them to send invoice requests and make payments and settlements much faster. However, merchants haven't yet become a part of UPI in a significant way. But now, in what is being termed UPI 2.0, merchants are supposed to come on board.

Apart from SBI and HDFC Bank, the others accepting payments through UPI include Axis Bank, ICICI Bank, Union Bank, YES Bank, IDBI Bank, HSBC, etc. Earlier, the launch for the UPI was slated to be July 31, which had to be postponed by a month, as some banks were not ready.

2. Allow co-operative banks to deal with demonetised currency: Bank staff to govt

District central co-operative banks are dealing with over Rs 6 lakh crore towards working capital in the country

BS Reporter

Supporting the demand of the co-operative bank employees' organisations, the commercial bank employees' organisations has sought help from the government in revising the Reserve Bank of India's (RBI's) instructions allowing credit organisations to deal with the Rs 500 and Rs 1000 currency notes.

In a joint letter written to the Union Finance Minister Arun Jaitley, the All India Bank Employees' Association (AIBEA) and All India Bank Officers' Association (AIBOA) said that the district central co-operative banks, which are the backbone of the industry, are dealing with over Rs 6 lakh crore towards working capital and deposits of around Rs 3 lakh crore. These banks own funds worth more than Rs 2 lakh crore.

The banking sector is going through a turmoil and the employees are working under stress as customers are thronging bank branches to deposit or exchange withdrawn currency notes.

However, according to RBI instructions, district central co-operative banks, industrial co-operative banks and primary co-operative banks cannot carry out transactions either for their own customers or for the general public.

"Similarly there are more than 10,000 primary agricultural cooperative credit societies, out of which 65 per cent are doing banking business. All primary cooperative agriculture and rural development banks have also been permitted to carry out banking activities," said the letter.

While primary level credit institutions have been serving several crores of farmers in the country, "they have been relegated to the background and are treated in the most cavalier fashion, as if they are worthless organisations," alleged the organisations.

These base level organisations deal with a majority of the banking masses in villages and all these co-operative credit organisations, apart from conducting banking transactions, are the prime source of distribution of essential commodities.

Considering this, the organisations requested the Minister to advise the RBI to issue revised instructions enabling credit organisations to continue their operations to serve "the lesser privileged sections of the society," they added.

3. Demonetisation: RBI doubles balance limit for digital wallets to help merchants

The relaxation will be applicable until Dec. 30, the RBI said

Reuters

The Indian central bank on Tuesday doubled the balance that can be kept in prepaid wallets and cards to Rs 20,000 to help small merchants get paid electronically after the government withdrew high value bills.

The Reserve Bank of India (RBI) also said merchants can transfer up to Rs 50,000 per month from these so-called semi-closed prepaid payment instruments to their bank accounts.

The relaxation will be applicable until Dec. 30, the RBI said.

Indian businesses have been badly hit with buyers and sellers left with very little cash following the demonetisation.

Financial Express

4. Anil Ambani led Reliance Communications gets SC relief in Rs 4,800 cr tax case

In a major relief to Anil Ambani-led Reliance Communications, the Supreme Court on Tuesday dismissed the income tax department's appeal seeking to tax the proceeds of its \$1.5-billion foreign currency convertible bonds (FCCBs) issued by the telecom firm nearly a decade ago.

By: Indu Bhan

In a major relief to Anil Ambani-led Reliance Communications, the Supreme Court on Tuesday dismissed the income tax department's appeal seeking to tax the proceeds of its \$1.5-billion foreign currency convertible bonds (FCCBs) issued by the telecom firm nearly a decade ago.

While the company said the apex court has quashed a "contingent tax liability of RCom for about R4,800 crore", the I-T department in its appeal had claimed a tax liability of R2,236.01 crore for assessment year 2007-08.

A bench led by Justice Kurian Joseph said: "We find no reason to entertain this special leave petition, which is, accordingly, dismissed."

RCom had issued \$1.5 billion (R6,485 crore) of FCCBs in 2007 in line with RBI's extant guidelines and applicable laws. Subsequently, the I-T department took the view to assess the FCCB proceeds as 'unexplained cash credits' and had raised tax demands thereon, the company statement said.

Challenging the Bombay High Court's March 28 judgment that dismissed its petition, the department in its appeal said the funds by way of FCCBs were introduced by RCom in its books to the tune of R6,485 crore without furnishing details in respect of the actual subscribers to the FCCBs.

"The crucial conditions regarding identity, genuineness and creditworthiness of the subscribers to the FCCB as required u/s 68 of the Income Tax Act was not examined by the Assessing officer (AO) during the assessment proceedings," it said.

Besides, out of the proceeds of FCCB funds, around R5,142 crore was given to Reliance Info Investments, which invested it and earned interest income of R157.95 crore, it further said, adding that the assessee had also transferred its assets by a revocable transfer which in effect meant transfer of income without the transfer of the assets and this aspect of clubbing of income earned by the transferee company in the hands of the assessee was never considered by the AO, thus making the assessment order erroneous and prejudicial to the interests of the Revenue.

The department further told the apex court that there was a component of Mark-to-Market loss on foreign exchange derivatives which had been included under the head foreign currency exchange fluctuation loss/gain (net) under the financial charges.

"The said Mark-to-Market losses as on the reporting day are only notional losses and contingent in nature and could not have been allowed to be set off against the taxable income in terms of Section 43(5) of the

I-T Act. This issue was not dealt with the AO at all while framing the assessment order," the appeal stated.

The company had declared nil income in its tax returns filed in November 2007. The case was selected for scrutiny in March 2009 and a notice was issued to the company. The commissioner of income tax in March 2012 after giving opportunity to the assessee to clear its stand concluded that the AO had failed to examine the assessments properly and the assessment order was set aside. Both the Income Tax Appellate Tribunal and the Bombay High Court ruled in RCom's favour in February 2013 and March this year, respectively.

While Additional Solicitor General Pinky Anand appeared for the revenue authorities in the SC, RCom was represented by senior counsel Soli Dastur and counsel Mahesh Agarwal.

5. Bank NPA's: How to clear the bad loans mess

Banks seem to be dithering when it comes to lending and recovery. This impression has gained ground and even chairman of the Bank Board Bureau has stated so.

By: Deepak Narang

Banks seem to be dithering when it comes to lending and recovery. This impression has gained ground and even chairman of the Bank Board Bureau has stated so. Banks are not doing enough for the purpose of recovery and/or lending. The humongous NPAs are just the tip of the iceberg, but the biggest worry is that public sector banks (PSBs) are conceding their share of business to private banks and other entities like P2P lenders.

The finance minister has suggested that banks may convert debt to equity and sell the stressed assets to PSU for it to operate and manage. The idea, is worth experimenting, but modalities should be worked out before its implementation. If banks do decide to sell the unit to a PSU, then valuation of asset is likely to become an issue. More often than not, these assets are created by inflating the cost and, thereafter, the contribution made by the promoter is siphoned off. A peep into the past will open up a can of worms and borrowers will resort to litigation to delay this process. But then again, such borrowers need to bring back the funds into the system before their companies can be sold or taken up for restructuring of any sort. The assets are to be sold under SARFAESI to obviate delay and reduce outstanding debt.

Borrowers resort to such tactics because they know their financial shenanigans will not cost them a bit. But, if management is handed over to the PSU, then different set of problems will crop up. Will the top management be changed, who will provide last mile liquidity, and what interest will the PSU have to turn it around, are some of the issues that will have to be addressed. Besides, stockholders and promoters will resort to frivolous litigation for derailing the whole process.

The restructuring schemes formulated by RBI, such as SDR or S4A, are good and are intended to provide leeway to banks to wrest control from the borrower. But, the so-called advantage under these schemes ends here. No wonder that the schemes have been revised time and again, and were revised yet again on November 10. The objective of these schemes is to provide succour to all defaulters, including those who siphoned-off money from the system but have not been labelled as wilful defaulters.

No attempt is being made to segregate the wheat from the chaff, to discount the honest borrowers who suffered for reasons beyond their control. Even banks are loath to doing this as wilful defaulter does not arm them with any ammunition to fight the war. Unless there are penal provision for wilful default, making it a crime, default and diversion of funds will continue and banks will have to keep on incentivising unscrupulous borrowers.

Let's study the ecosystem in which banks work. A mistake is sufficient to spoil someone's career. So, those who make no effort to lend or recover rise in hierarchy, and non-performance gets rewarded. Instead, those who take a decision have to face some charge or the other notwithstanding the fact that to err is human. Moreover, it's not uncommon for the act of bankers to be judged by a police officer few years down the line with pre-conceived notion that the banker was dishonest. So, if a banker recovers an NPA by sale to ARC, now, and the account gets back on track after the security receipt had been redeemed at loss, then one fine day, a police officer will question the banker and attach motive for selling it cheap. The government, thus, should allow a bad bank to address such apprehensions.

Another debate is about disclosing the name of defaulters. Supreme Court should make wilful default a crime, as is prevalent in some other countries.

Moreover, the courts needs to support cases of recovery, like the debt recovery tribunal (DRT) of Bengaluru did in the Airbus case. In a case filed against Airbus Industries in 2014, as it neither delivered aircraft nor refunded pre-delivery payment given by three banks on behalf of Kingfisher, the DRT Bengaluru passed an order on October 18, 2016 that the company needs to deposit the entire amount of R192.6 crore in eight weeks.

An honest attempt needs to be made to resolve these issues. A bank officer knows that once charge-sheet is issued to him, he will be left to fend for himself. It behoves well for the banking fraternity to have some sort of mechanism to address these issues where financial and moral support is provided to innocent officers for bonafide acts. Some action on the ground to protect banker from idiosyncrasy of the management and wrath of CVC and CBI is needed so that the bankers engage enthusiastically for lending and recovery.

Public sector bankers have discharged social obligation by implementing poverty alleviation schemes thus serving rural poor admirably. Now, they are working day and night, against all odds to help people exchange high denomination currency notes They have been the engine of growth for the economy as they have lent to infra-projects and have opened Jan-Dhan accounts to implement financial inclusion. It's in national interest that issues plaguing the PSBs are resolved and morale of officials is kept high, so that banking activity is put back on track.

The author is former ED, UBI, and visiting professor, NIBM.

6. Less than a third of ATMs operational in Kerala

VINSON KURIAN

As much as 70 per cent of the ATMs in Kerala remain shut, or partially so, at the end of the second week after the Prime Minister announced demonetisation of high-value notes.

The state has close to 9,000 ATMs in all, but shortage of adequate notes in the new series as also those of lower denomination has forced at least a third to down shutters, more so in the second-rung towns and villages.

Only public sector banks such as State Bank of India and State Bank of Travancore have shown a sense of commitment in terms of efforts at running the ATMs at the urban centres, Jayamohan, an IT professional based in Technopark, said.

Some of the other banks continue to keep the newly-arrived Rs. 500 notes at their offices despite instructions from the Reserve Bank that these should be used to fill the recalibrated ATM trays, sources who spoke on condition of anonymity said.

Meanwhile, a spokesman of State Bank of India said that the first indent of Rs. 500 crore notes in the new series amounting to Rs. 10 crore received by it has been sent for refilling to its ATMs across the state.

But it would need at least Rs. 400 crore worth of these notes to meet the demand, he said. The bank expected more consignments to reach the state by road and rail during the rest of the week.

Other sources said that the regional office of the Reserve Bank had received Rs. 40 crore worth of these notes a couple of days ago. These were airlifted by an Antonov-32 aircraft of the IAF that arrived here on Monday.

A container load is now expected to reach the Reserve Bank office during the course of this week. This is expected to relieve the cash availability position to some extent, the sources said.

7. SBI pumps money in POS devices as cash pipeline dries-up

PTI

Seeking to reach out to maximum number of people looking to withdraw money, State Bank of India today said it is providing cash through POS machines including in tea gardens, hospitals and trains.

The move follows huge rush at banks and ATMs following the ban on old high-value notes of Rs. 500 and Rs.1000.

In a statement, SBI said it is catering to every sector and geographies including tea gardens, hospitals, trains through 'Cash@POS' initiative to dispense cash through 741 mobile vans across the country.

"At a time when getting cash from an ATM was proving to be a tall order across the country, State Bank of India has taken the lead in reaching out to the wide spectrum of its' client base by dispensing cash to the needy," it said.

The Cash@POS (cash at point of sale) on wheels, manned by employees as well as retired employees of the bank have spread out to various locations to dispense cash of up to Rs. 2,000 per person through the swipe of a card on an SBI POS machine, the bank said.

Besides, SBI employees are moving around on foot to reach out to as many customer segments including individuals, shops and corporates.

SBI is also providing point of sale (POS) devices speedily to micro vendors like vegetable & fruit vendors, pesticide merchants, fertiliser merchants with the focus on rural and tribal areas of the country.

The country's largest lender said it has covered bus depots, airports, mandis, housing societies, market places, cantonments and others for dispensing cash during this period.

It also set up a cash-dispensing camp on Sunday, November 20 at the ill-fated railway accident site in Pukhrayan in Kanpur Dehat.

Customers can also draw money at IOCL, HPCL and BPCL petrol pumps by using SBI-enabled POS machines.

8. RBI starts moving old notes from 'flooded' currency chests

RUTAM VORA

It is a problem of plenty for the banks and currency chests, which store currency notes and coins on behalf of the Reserve Bank of India. With people depositing the demonetised notes of ₹500/1,000 in crores, bank branches and currency chests are overflowing with no room for further storage.

Sources in banking circles confirmed that the RBI has now started the process of mobilising the demonetised currency notes from currency chests to RBI's regional headquarters.

“Currency chests are bursting with loads of demonetised cash bundles. There is no further room to store any more currency. In the last 10 days, there has been no movement to transfer this cash to the RBI. Now from November 22, we are told RBI will start mobilising this demonetised cash to its regional headquarters,” said the Chief General Manager of a public sector bank in Ahmedabad.

According to sources, the demonetised notes will be transported under armed security to the regional RBI headquarters, where they are likely to be shredded or converted into paper pulp.

The remittance from the currency chests to the RBI is done through a long procedure of counting, sorting, packaging and verification for fake notes.

“In case of any irregularity in the notes, the RBI will impose heavy penalty on the currency chests. Therefore, banks and currency chests are being extra cautious in remitting the old notes to the RBI,” another bank official said.

The bank officials claimed that there was a stupendous surge in the quantity of old currency notes in the past 10 days leaving little room for the new notes coming from the RBI.

“After this remittance to the RBI, there will be extra space in chests to store new notes,” the official stated.

According to sources, unprecedented security arrangements have been made with extra force deployment from State Reserve Police Force (SRPF) guarding the cash on road transport, while for rail movement of cash, the Railway Protection Force (RPF) is being deployed.

9. 60-day repayment relief is for lenders, not a payment holiday for borrowers

RADHIKA MERWIN

The RBI on Monday provided lenders — banks, non-banking finance companies and microfinance companies — a breather, by relaxing NPA recognition norms by 60 days, for payments due between November 1 and December 31. While this will offer some leeway to lenders on the provisioning front, it does not imply a 60-day holiday for borrowers to pay their dues. Borrowers may still incur additional interest and penalty on account of delay in payment of their EMIs.

What the RBI says

Currently loans (in case of banks) where borrowers have defaulted in their payments for 90 days or more, are classified as NPAs.

The RBI’s notification on Monday implies that the cut-off norm for NPA recognition has been extended to 150 days, for payments due between November 1 and December 31. The current norm practised across NBFCs varies from 90 days to 150 days (though all are mandated to adopt a 120-day norm by March 2017).

The relaxation on loan classification will offer respite to lenders on the provisioning front.

The RBI’s exemption is aptly applicable in the case of small borrowings — working capital limits with banks where the sanctioned limit is ₹1 crore or less and term loans of up to ₹1 crore.

At the system level, of the total outstanding loans of banks as of March 2016, loans with credit limit of upto ₹1 crore constituted about 35 per cent (in value). In terms of accounts, the RBI's leeway covers 99 per cent of the total number of bank loan accounts. In case of NBFCs and HFCs, as the average loan ticket size is low, the RBI's relaxation will apply to most borrower accounts.

Does this mean that nearly all borrowers can delay their payments by 60 days?

The provisioning relaxation for lenders has been misinterpreted as a payment holiday for borrowers.

"The RBI has not stated that lenders have to defer collections. All that the RBI is stating is that in case of overdue accounts in this period, we need not set aside additional provisions for the short term. In case of borrower difficulty to make the payment, MFIs are voluntarily deferring the payment without any fees or additional charges," explains Rajeev Yadav, Chief Executive Officer, Disha Microfin.

TT Srinivasaraghavan, Managing Director, Sundaram Finance, reiterates the same point stating that the circular is intended for lenders and not for borrowers.

Not a waiver

"Only some sections of borrowers have been impacted by the cash crunch and may not be able to service their payments. So, the RBI has given lenders a little leeway for recognising such delinquencies. It is not a loan waiver scheme," says Srinivasaraghavan.

According to the contractual arrangement, lenders can continue to charge interest on the delayed payment.

According to a clarification note put out by Microfinance Institutions Network (MFIN) — a self-regulatory organisation that regulates NBFC-MFIs — the RBI's circular is a relaxation for loan classification and has been misunderstood as deferment of payment of loan repayment instalments. The note clarified that the normal rate of interest as per the original loan agreement, will apply to all delayed payments.

Accepting old notes

Small borrowers who repay their dues through cash have been impacted the most and the leeway is required more from the point of view of ease of repayment. Banks are allowed to collect old ₹500 and ₹1,000 notes from borrowers, but NBFCs and MFIs have not been allowed to do so.

"We have made representations to the RBI to allow us also to accept these notes. This would have resolved some of the operational issues which are being faced by our customers. All our customers are KYC-compliant in any case," says Yadav.

"Borrowers are allowed to repay bank loans with old notes. This option should also be made available to NBFCs as the money would be going into the loan account with requisite PAN details in any case. Ultimately, the money will come into the system," adds Srinivasaraghavan.

With kind regards,

Yours Comradely,

A handwritten signature in blue ink, appearing to read 'N. Govindrajulu', with a long, sweeping horizontal stroke extending to the right.

(N. GOVINDRAJULU)
GENERAL SECRETARY