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Dear Comrades,

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News of Interest 24th Oct

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Business Standard

1. Govt, banks meet today on stressed assets

Just five sectors contribute 61% of the banking sector's stressed assets - infra, steel, textiles, power, and telecom

Abhijit Lele

Bureaucrats and bankers will meet in Delhi on Monday to review stressed assets (accounts), especially in the steel and infrastructure sectors.

Public-sector bank executives said, this would be an overall review. The government wants to know if changes in rules are required. According to Reserve Bank of India data, five sectors contribute 61 per cent of the banking sector's stressed assets — infra, steel, textiles, power and telecom. Each is individually important and dealing with stressed assets will require skill and creativity.

There are many reasons that led to this situation but helping banks deal with this is, at present, of utmost importance, RBI governor Urjit Patel said early this month, at the monetary policy review.

Bankers said it had been a little over a year since the steel industry got support through steps like a higher duty on import. Banks have also done considerable hand-holding, indicating patience despite a high provision burden for stressed cases. Some improvement is now visible in demand and prices of steel products. Most units in the steel sector are working with better capacity and are positive on operating earnings. If this trend continues, units will be in better position to service debt, said a senior with IDBI Bank.

Still, significant financial stress in large expansion projects, especially in iron & steel, construction, textiles and power, continues to inhibit bank credit flow. Credit to industry shrunk by 0.2 per cent in the 12 months to August, from five per cent growth in the earlier 12 months. In this period, loans to infrastructure (power, telecom, roads) fell 4.2 per cent, as against the earlier growth of eight per cent.

After the change of guard at RBI, there is also a change in the approach on non-performing assets. Patel, while articulating the priorities, had said, "RBI will deal with this situation (NPAs) with firmness but also with pragmatism, so that the economy does not feel any lack of credit to support growth in the economy. We must remember the situation has not occurred overnight and will require skill and thoughtful endeavour to resolve."

There are four stages. The identification, the recording and reporting of this subject have been done satisfactorily. Resolution is the fourth leg and needing a lot more work, he'd added.

2. Bring Pensions under one authority to boost coverage: Regulator

FRDA Chairman reiterated that bringing about tax parity between the NPS and the EPF scheme would provide a boost to the subscriber base.

IANIS

Making a case for consolidating all the pension products under its umbrella, a top official of the Pension Fund Regulatory and Development Authority (PFRDA) has said this would help bring at least 20 per cent of India's population under its cover by 2021-22.

"Currently the pension coverage of all the schemes, including the Employees Pension Fund (EPF), is only 13-14 per cent of the country's population. We are hopeful that by 2021-22, we should be able to take it to 20 per cent, including EPF and other pension funds like the one for coal miners," PFRDA Chairman Contractor told IANS in an interview.

"Consolidation will open the roads for faster growth of subscribers for pension products. We have the infrastructure in place," he added.

Pension funds, including the National Pension Scheme (NPS) and the Atal Pension Yojana (APY) are regulated by PFRDA, but pension schemes floated by insurance companies are regulated by IRDAI and the ones offered by mutual funds are regulated by Sebi.

Contractor also reiterated that bringing about tax parity between the NPS and the EPF scheme would provide a boost to the subscriber base of pension products.

"The stumbling block is tax, because EPF is tax free. In case of NPS, only 40 per cent is tax free. The suggestion to make NPS completely tax free has been made to the government," Contractor said.

Instead of making NPS tax free, the government had in the budget earlier this year announced that EPF would be partly taxed. This had led to an uproar from political parties and trade unions. The government was forced to rescind its decision within two weeks.

The PFRDA Act, 2013, states that the pension fund regulator will regulate all schemes other than the EPF and some other statutory funds like the Coal Mines Provident Fund Organisation.

The Finance Ministry has assured the regulator that a committee would be set up soon to study the issue.

"We have drawn the attention of the government and told them that all the pension schemes floated by mutual fund and insurance companies should be regulated by us. The government has said it will form a committee to look into it," Contractor said.

Saying that it was pursuing the matter "vigorously" with the government, Contractor said there would be some issues about the existing pension products of insurance companies and mutual funds, but the committee being set up would look into these.

The Chairman agreed it would be a challenge to get all the information about all the existing pension products and the quantum managed.

PFRDA, which alone manages Rs 147,000 crore in pension products held by 13.7 million subscribers, said its infrastructure and manpower are fully equipped to handle the increased amount after consolidation.

The pension fund regulator is looking to expand, with a branch in Mumbai in this fiscal and one or two more branches in other parts of the country later, to better cater to the expected increase in the subscriber base, Contractor said.

"In terms of subscribers, we grew by 40 per cent last year. In quantum, we grew by 50 per cent in 2015-16. This year too we are looking at a similar increase. We are on track. The bulk of the quantum comes towards the last two months of the year-end because of the tax benefits," he said.

3. Rupee likely to trade 68-69 levels by end-FY17

Shilpa Kumar

The outlook for rupee has improved, amid better domestic macro fundamentals and strong capital flows. Global economic challenges and rising risk aversion, which weighed on the rupee earlier, have had limited impact in the recent past.

Even now, the challenges for the global economy continue to persist. The International Monetary Fund (IMF) recently reduced its 2016 global growth forecast to 3.1 per cent from the earlier 3.2 per cent. The revision reflects a more subdued outlook for advanced economies following the Brexit vote in June. Subdued demand conditions are further reflected in low inflation prevailing worldwide. These developments have put downward pressure on global interest rates as most regions, except for the US, are now expected to remain accommodative for longer.

However, there is a growing sense that some form of fatigue is setting in among central banks with the monetary policy impact. This could result in a sharp sell-off in the bond markets in advanced economies and trigger spillover reactions across other assets class, too. In such a scenario, risky assets will be sold off and depreciation pressure on the rupee is likely to increase.

On the other hand, improving domestic macroeconomic backdrop will continue to keep the rupee afloat.

Improvement in the external sector outlook has been the key driver for a stable rupee. The economy is now in a comfortable position to finance the current account deficit by stable flows such as foreign direct investment alone, without resorting to

FII flows. The economy is likely to end the current financial year with a comfortable balance of payment surplus despite significant FCNR (B) outflow.

India's foreign exchange reserves have also increased to \$368 billion, which yields an import cover of Rs 12 a month, a significant improvement from the low of seven months during the taper tantrum episode of 2013. Our reserve adequacy calculation suggests there is scope to increase FX reserves further to \$400 billion.

As a result, the rupee has broadly traded in the range for the past few months and seen relatively lower volatility than most other currency pairs in the EM (emerging market) currency basket.

Towards the end of the year, global monetary policy differentials will play out. The US Fed will resume its rate tightening, likely to result in a stronger dollar. However, a cautious approach by the US Fed is likely to be less disruptive for EM currencies. The outcome of the Presidential election and Opec's oil market meeting in November are sources of possible volatility for the currency market.

To counter the impact of FCNR (B) outflow on the rupee, the Reserve Bank of India (RBI) has allowed for greater appreciation in the rupee, to address market concerns regarding dollar shortage. We believe RBI will shift to the earlier regime of gradual depreciation in the rupee once the FCNR (B) flows are out of the way. Against this backdrop, we believe the rupee is likely to trade in the range of 68-69 by the end of the financial year.

Financial Express

4. Finance Ministry expects report on debit card data breach in 10 days

The Finance Ministry has asked various agencies, including RBI, which are looking into the largest banking security breach involving over 32 lakh debit cards, to submit their report in 10 days.

By: PTI

The Finance Ministry has asked various agencies, including RBI, which are looking into the largest banking security breach involving over 32 lakh debit cards, to submit their report in 10 days.

"We expect result of the technical enquiry in the next 8-10 days. This will give us exact picture of the entire incidence. It will give us lead as to where hacking or compromise took place," Finance Ministry sources said.

Earlier this week, Finance Minister Arun Jaitley had said the government asked RBI and banks to provide details of the data breach and also banks' preparedness to deal with cyber crimes.

As many as 32.14 lakh debit cards of various public and private sector banks are feared to have been 'compromised' by cyber malware attack in some ATM systems. Several banks, including state-owned SBI, have recalled a number of cards while many others blocked the ones suspected to have been compromised and asked their customers to change PIN (personal identification number) before use.

Fraudulent withdrawals have been reported from 19 banks so far while complaints have been received from a few banks that their customers' cards were used fraudulently abroad, mainly in China and the US while the customers were in India.

According to the National Payments Corporation of India, as many as 641 customers across 19 banks have been duped of Rs 1.3 crore using stolen debit card data.

The government asked regulator Reserve Bank of India (RBI) as well as banks to provide details of the data breach and also preparedness to deal with cyber crimes.

There are around 60 crore debit cards operational in India, of which 19 crore are indigenously developed by RuPay while the rest are Visa- and MasterCard-enabled.

Of the debit cards affected, about 26.5 lakh are on Visa and MasterCard platforms while 6,00,000 are on RuPay. The breach reportedly involved some 90 ATMs.

While Visa and MasterCard, in separate statements, have stated that their own networks had not been compromised, Hitachi subsidiary Hitachi Payment Services, which manages some of the ATM network processing, was investigating the matter, including whether there was a malware problem.

The Hitachi ATMs deployed by many white label ATM players and Yes Bank were impacted by the malware while usage at other ATMs were completely secured.

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5. Anti-black money operations to be intensified

With both the one-time black money declaration windows concluded, the Income Tax department is set to intensify its crackdown against stash holders after a recent case where an IDS participant surrendered a fresh Rs 30 crore of unaccounted wealth to the taxman after raids were conducted against him.

By: PTI

With both the one-time black money declaration windows concluded, the Income Tax department is set to intensify its crackdown against stash holders after a recent case where an IDS participant surrendered a fresh Rs 30 crore of unaccounted wealth to the taxman after raids were conducted against him.

The case that recently took place in Kolkata has stunned authorities of the I-T investigations wing after the said business entity produced, during searches, a bonafide receipt of declaring about Rs 3 crore worth of black money under the Income Declaration Scheme (IDS) that ended on September 30.

The entity, however, had concealed about Rs 30 crore illegal wealth which only came to light when the department conducted a "routine search" base on "actionable information" of tax evasion few days back.

While official sources did not disclose the identity of the entity citing IDS confidentiality clauses, they said the taxman will undertake strict action of penalty and prosecution against the entity as he hid his actual income and made a partial declaration under the IDS.

In yet another similar case, a Delhi-based lawyer recently disclosed Rs 125 crore of black money to the taxman after searches were conducted against him, post the closure of IDS.

In this case reported from the national capital, the person concerned did not avail the IDS opportunity but got caught soon after the taxman came calling at his doorsteps.

Tax officials said there have been few more cases in the southern part of the country where tax evasion worth crores has been found after searches were carried out by the department, after the IDS window closed.

Officials said taking into cognisance such cases, I-T sleuths are now expected to intensify their search and seizure operations to unearth as much black money as possible within this fiscal.

They said while there is no target to achieve in this regard, these recent disclosures indicates that some more people who had used the IDS to declare their illegal wealth to the government could only have parted with only some portion of it and not in full even as some had totally concealed their tainted wealth. A huge sum of Rs 65,250 crore in black money was declared through the one-time domestic black money declaration window also known as IDS, marking the biggest-ever disclosure of hidden wealth that will rake in about Rs 30,000 crore in taxes to the exchequer.

Last year, under a similar scheme for foreign black money holders, 644 declarations of undisclosed foreign income and assets were received, and just Rs 2,428 crore was collected in taxes.

The government had earlier made it clear that those who hide their black wealth after the closure of these two opportunities will have to face legal consequences emerging out from the action of tax and financial enforcement agencies.

Business Line

6. We use 1% of profits for CSR annually, says SBI chief

ANIL URS

The State Bank of India annually contributes around 1 per cent of its profits to socially relevant and corporate social responsibility projects. SBI Chairman Arundhati Bhattacharya shares with *BusinessLine* details of the projects and strategies the bank adopts. Edited excerpts:

What kind of projects has the SBI take up under its Corporate Social Responsibility initiatives, especially on education, empowerment, financial inclusion and Swachh Bharat?

We have been working on all of these areas. For instance, under Swachh Bharat, last year, we asked each of our 14 LHOs (Local Head Offices) to adopt one district and build toilets for girls in all schools in that district.

With respect to education, we are doing a project along side Oracle India, called D-Change. Under this programme, we go to schools and teach children how to use internet and computers for productive purposes.

Subsequent to the students being taught, we hold weekend classes where the students in turn teach their parents.

With the help of volunteers from SBI and Oracle, we provide vocational training in 117 Rural Self Employment Training Institutes.

In the past few years, we have trained almost 2, 50,000 people, 49 per cent of whom are either employed or run a business. We also give them small loans, if we feel that we can settle them in a good business.

In Karnataka, under the Gram Ujjwala scheme, we have donated one solar street lamp each to 212 villages.

Besides all of these, we have also donated a large number of ambulances and medical equipment. We have given ₹10 lakh to 35 people who were not able to afford heart surgeries.

Recently, we donated a van to the Indian Cancer Society. The van has an entire lab for detecting cancer, including space for general examination, a blood testing unit, a Pap smear unit and a mammogram unit.

Does the SBI regularly contribute a sizeable amount for CSR. What kind of spend does the bank do? Is it more than the mandated 2 per cent stipulated by the Companies Act?

We did not start this now. We have been doing it from the beginning.

We don't contribute the mandatory 2 per cent because we are a statutory company. As a statutory company created by an Act of Parliament, the Companies Act does not apply to us. For a very long time, we have been using 1 per cent of our profits for CSR activities. Even today, we continue to use 1 per cent; especially because banks have been going through a lot of stress in the past few years. The Reserve Bank of India has told us to keep it at 1 per cent. But, we are trying to increase the volunteering.

How does the SBI measure the success of its intervention in societal projects?

That is one of the reasons why we set up a foundation. When we were doing it through the bank, the contributions were in small pieces and we could not really assess the impact. Now, we are doing this through the foundation; we are doing many of these projects in conjunction with others, and because the scope of the project becomes large, it is much easier to measure the impact. We started doing the impact measurement last year. We will have to wait for a while to understand what change we are making.

After an intervention, when does the SBI decide to disengage?

Normally, when we get into a project, we decide on a goal and the number of people it needs to cover. If that goes well, we can extend the project. We don't need to disengage, but if we find that it is not working out the way we want, we will disengage and move to some other effort.

Has the SBI made a one-time contribution to any project or movement?

Yes. For instance, we recently made a one-time contribution to the Barasat District Hospital, Kolkata, for a radiation machine. There are other examples, too.

7. India's bank deposit cover among the lowest globally

RADHIKA MERWIN

Less than a third of all bank deposits in value terms in the country is insured by the RBI arm Deposit Insurance and Credit Guarantee Corporation of India (DICGC). The central bank is fine with this, and points to the international benchmark of 20-30 per cent.

Yes, countries such as Canada, Korea, Russia, Singapore and Switzerland have insurance only for 20-30 per cent of their bank deposits, according to a March 2013 paper put out by the International Association of Deposit Insurers (IADI).

But what is left unsaid is that the deposit coverage limit in each of these countries is far higher than the ₹1 lakh cover available in India. While Brazil has a coverage limit of around \$79,300, Canada insures up to a maximum \$75,000 and Switzerland upwards of \$100,000 per depositor. In contrast, the per person deposit insurance cover in India works out to a measly \$1,500.

Deposit insurance in India covers all commercial banks, local area banks, regional rural banks and co-operative banks. Each depositor is insured up to ₹1 lakh for both principal and interest.

The deposit insurance coverage limit is applied separately to deposits in each bank. If a bank goes belly up, then the DICGC pays the insured amount to the depositor.

While 92.3 per cent of the 168-odd crore accounts were covered in 2015-16, only 30 per cent of the amount in these accounts was insured. The insurance cover, which was about 35 per cent five years back and a much higher 60 per cent a decade back, has been dropping in the last couple of years.

The reason lies in the sharp jump in high-value deposits, given the growing income levels in India. From about ₹40,000 in 2005-06, the average amount in each deposit account has moved upwards of ₹60,000 in the last three to four years. The coverage under DICGC was last raised in 1993 from ₹30,000 to ₹1 lakh. This was done after a long gap of 13 years. For over two decades, the cover has remained at ₹1 lakh.

Well covered

When compared with other countries globally, the deposit cover in India falls badly short on two counts. One, of course, is the coverage limit, which is only a fraction of that offered in most countries. Canada, Brazil, Indonesia, Switzerland, France and the US — all insure an amount upwards of \$70,000 per depositor.

While many of these countries only cover around 30 per cent of the total deposits, the much higher per depositor limit offers some respite.

In the US, the Federal Deposit Insurance Corporation offers an insurance coverage of \$250,000, a limit that was revised in 2009 from the earlier \$100,000.

Aside from the coverage limit, India also ranks lower than the US, Japan, Indonesia, France and Australia, in terms of coverage ratios. These countries cover 60-70 per cent of total deposits in the system, according to the IADI paper.

Differential premium

While it is true that the coverage should include as many individual depositors as possible, a reasonable value of total deposits should be left uncovered to avoid moral hazard, according to IADI. To avoid moral hazard, the RBI is mooting a differential premium which can lay the ground to increase the ₹1 lakh limit.

8. Ministry to banks: Guide steel units out of their stressed state

With RBI's schemes for speedy resolution of distressed assets yet to show results, the Steel Ministry has under-scored to banks the urgency of guiding steel units out of their current stressed state.

The Ministry wants long-term measures drawn up for turning around the steel sector's fortunes, said a senior public sector banker privy to the development.

According to the Reserve Bank of India, a mapping of the risk profile of select sectors as at end-March showed that the iron and steel industry was not only highly leveraged but also bent by the interest burden.

Despite the levy of Customs/safeguard duties and imposition of floor prices, import of iron and steel had risen in 2015-16 in volume terms, impacting the domestic industry.

According to the central bank, the iron and steel industry is among the half a dozen industries where the percentage of 'leveraged weak' companies is relatively high.

The RBI has already warned that such highly leveraged companies with low debt-servicing capability can exert pressure on the already strained asset quality of banks in adverse situations.

A macro stress test of sectoral credit risk by the RBI revealed that in a severe stress scenario, among the select seven sectors, the iron and steel industry (which had the highest gross non-performing assets ratio, GNPA, at 30.4 per cent as of March 2016) could see its GNPA moving up to 33.6 per cent by March 2017.

As per the latest RBI data on industry-wise deployment of gross bank credit, iron and steel sector loans amounted to ₹3,10,900 crore on August 19, 2016 against ₹3,11,500 crore as on March 18, 2016.

For speedy resolution of distressed assets, the RBI, had over the last two years come up with a variety of schemes by which 'a more sensible capital structure can be crafted for projects'. These included the 5/25 (flexible structuring of long-term project loans to infrastructure and core industries) scheme, Strategic Debt Restructuring, and the Scheme for Sustainable Structuring of Stressed Assets.

Bankers say the effectiveness of each of these schemes in turning around distressed assets through improvements to operational efficiencies and creating the right capital structure is yet to be proven.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY