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Dear Comrades,

28th September , 2016

NEWS OF INTEREST 28TH SEP

QUOTE OF THE DAY

“WHEN YOU FAIL YOU LEARN FROM THE MISTAKES YOU MADE AND IT MOTIVATES YOU TO WORK EVEN HARDER.”

NATALIE GULBIS

- 1. CREDIT DEMAND MAY BE MUTED THIS FESTIVE SEASON**
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Business Standard

1. Credit demand may be muted this festive season

Even though lenders have been witnessing credit demand from the retail segment, it is the corporate lending that has remained subdued

Nupur Anand

Credit demand might remain lacklustre this festival season, too, say bankers. Bank credit, though, had shown a marginal uptick in the festival season of the past two years.

Credit demand in the past few months has been hovering around 8.5-9.7 per cent. Though this might pick up in the second half of the season, bankers said they expect it to be only in the early double digits.

"Traditionally, credit demand picks up from October and so, we will see the same this year as well. But we do not expect any major pick-up overall, as demand from wholesale and business segments has been low," said a public sector banker, requesting anonymity.

Though lenders have been witnessing credit demand from the retail segment, especially private sector banks, corporate lending has remained subdued. This kept credit growth to below 10 per cent in the previous two years.

A report by Kotak Institutional Equities said this low loan growth in the industry segment reflected there weren't too many new projects to finance. And, it also showed banks were reluctant to lend to industry and infrastructure sectors; this, the report said, was likely to continue for the next few quarters.

However, bankers expect some improvement in credit demand, especially in the agriculture segment. "We have seen a good monsoon and, therefore, we can see some demand coming in from the rural areas that can fuel retail growth and the agri segment," said N S Venkatesh, executive director, Lakshmi Vilas Bank.

Despite expectations of credit improvement in some segments, banks haven't rolled out too many offers this year for the festival season.

The Kotak report said credit growth was likely to remain below 10 per cent in the medium term. There has not been any real sign of growth and that has kept expectations of credit growth low. Hopes that the investment cycle would come back might take some time to fructify. "A pick-up in investment may result in higher credit growth after three to four quarters; this, we highlight, has now been a rolling assumption for the past several quarters," added the report.

2. Daily enrolments see big drop in Jan Suraksha insurance

This has dropped to 23,150 this financial year (April 1-September 26 period), according to data from the Jan Suraksha website

M Saraswathy

The Pradhan Mantri Jan Suraksha Yojana (PMJSY) insurance scheme has seen a steep fall in daily average enrolments this financial year, against the year-ago period.

The June 1 to March 31 period in the last financial year saw an average enrolment of 0.4 million policies in pure-term and personal accidents a day. This has dropped to 23,150 this financial year (April 1-September 26 period), according to data from the Jan Suraksha website.

During FY16, the number of enrolments under Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Pradhan Mantri Suraksha Bima Yojana (PMSBY) stood at 123.57 million as on March 31. This means, on an average, for the 10-month period for which the scheme was operational, 0.4 million enrolments were done every day. Banks were delivering these schemes via direct debit of premia.

This financial year, where the scheme has completed around 176 days, only four million new policies have been enrolled. This makes it an average of 23,150 daily.

Insurance executives said, in the initial phases, bank channels had played an active role in getting new policyholders. Such initiatives have gone down. "Since it is not their core business, promotional activity from banks has also reduced

significantly, which has directly affected new policy numbers under the scheme," said a chief executive officer of a midsize private life insurance company.

The PMJSY, which provides a pension scheme, a term insurance cover under PMJJBY and an accident insurance cover under PMSBY, has already crossed 127 million insurance policyholders. The plans have a cover of Rs 2 lakh each, with a premium of only Rs 12 a year for accident insurance and Rs 330 for the life product.

3. Govt to implement Khan Panel views in 6 months

Corporate bond market needs to be developed to finance the capital needed for huge amount

Anup Roy & Shrimi

The government would implement the recommendations of the H R Khan committee on corporate bond market development in six to eight months, Finance Minister Arun Jaitley said on Tuesday.

India is also leading an effort to develop a rating agency for BRICS countries (Brazil, Russia, India, China and South Africa) that would not only rate various instruments issued in these countries but also of other countries, said Economic Affairs Secretary Shaktikanta Das.

Both the Reserve Bank of India (RBI) and the Securities Exchange Board of India (Sebi) have implemented some of the recommendations. But to meet all of the 29 recommendations of the committee, the government has to do some legislative changes.

Delivering the valedictory speech at a summit on corporate bonds in BRICS countries, organised by the Confederation of Indian Industry (CII), the finance minister said the corporate bond market has to be developed to finance the capital needed for huge amount of infrastructure projects currently in implementation.

The country has to continue spending on railway projects, creation of smart cities, migration of rural population to urban areas and to cater to housing, roads, ports, airports, roads, renewal energy, hygiene and sanitation, healthcare, education.

"A lot of activities are going on in the infrastructure space and we have our hands full," said Jaitley. In fact, India needs to continue to invest in these fields so that economic growth remained buoyant, said Jaitley.

However, the banking channel won't be enough to take care of the financing, considering the huge bad debt pressure the lenders were facing due to slowdown in some sectors, he said.

At the sidelines of the event, Das said India was at the lead of developing an independent rating agency for BRICS countries. "Among the BRICS countries, India is now trying to develop a BRICS rating agency, which will be jointly developed by the BRICS member countries," Das said, adding the agency would rate various instruments in BRICS countries as well as other countries.

"There is a need to develop new credit rating agencies in the international scenario. We have some very good credit rating agency in India itself, but I think there is a need for a multilateral agency to develop," Das said on the sidelines of the CII event.

However, speaking at the same event earlier, RBI Deputy Governor R Gandhi said there should not be any unrealistic expectations from the corporate bond market and the notion that the bond market will take care of infrastructure need is not right.

"Many European countries have achieved economic success based largely on a bank financed model. So when we talk of developing corporate bond markets we must be realistic about our goals," Gandhi said in his speech at the event.

"More importantly, we must not be blinkered in squeezing bank finance to force-feed the corporate bond market. We would do well and act wisely if we keep our efforts in this perspective," Gandhi said.

Speaking at the same event, Sebi chairman U K Sinha said the Bankruptcy code will protect the bondholders, leading to the development of the bond market.

"The issues of the rights of bondholders have got a flip through the bankruptcy code. A lot of positive steps have been taken to protect the bond holders, however, I must add that a lot needs to be done to enhance liquidity in the bond market. In areas, like market making and using corporate bonds as collaterals, are among things which are needed," Sinha said.

In case of Masala bonds, or rupee denominated bonds, the government is unlikely to relax the withholding tax requirement, said Praveen Garg, joint secretary (financial markets), department of economic affairs.

"If we withdraw the tax issue (for Masala bonds), it would be discretionary and will distort the level playing field between investors (of onshore and offshore bonds)," said Garg.

Economic Times

4. Fall in corporate FD rates to hit retirees hard

By Prashant Mahesh

Individuals relying on company fixed deposits (FDs) for interest income may need to brace for lower rates. Companies offering fixed deposits have cut their interest rates by 25-75 basis points in the last 15 days in line with the fall in rates offered by bank deposits.

100 basis points is equivalent to 1%. Wealth managers said investors could look at select categories of debt mutual funds (MFs) to boost their fixed income returns.

Bajaj Finance, which offered interest rates of 8.9%, will now offer 8.2%. HDFC has reduced its rates from 8.4% to 7.9%, while Mahindra Finance has reduced it from 8.3% to 8.05%

ICICI Home Finance has cut rates from 8.4% to 7.9%. Financial advisors said more companies are likely to follow suit. These rates, however, are still higher than the maximum of 7.25 -7.50% offered by nationalised and private sector banks. Retirees are one of the biggest holders of company deposits.

Financial planners believe a combination of debt mutual funds and NCDs (non-convertible debentures) could help investors in fighting lower deposit rates. The reduction in interest rates is in line with the falling rates in bank deposits. To

protect their interest income, one way out for investors is to look at debt MFs," says Amol Joshi, founder, Plan Rupee. He believes debt MFs which are managed well could give 50-100 basis points higher returns as compared to fixed deposits.

Financial Express

5. Jim Yong Kim re-appointed as World Bank President

Jim Yong Kim has been re-appointed for a second five-year term as World Bank president, beginning July 1, next year, the bank announced.

By: [PTI](#)

Jim Yong Kim has been re-appointed for a second five-year term as World Bank president, beginning July 1, next year, the bank announced.

"Humbled to have the honour of serving a second term as the head of this great institution. I would focus on building a more inclusive world free of poverty," Kim said in a statement.

He said the starting point for his work when he joined the Bank in 2012 was the setting of two ambitious new goals for the institution: to end extreme poverty by 2030, and to promote shared prosperity by boosting the income growth of the bottom 40 per cent of the population in every developing country.

"In order to deliver these goals, the Bank had to accelerate, become bolder and more agile, and reposition itself. We did this so that we could increase support for countries and deliver better results more quickly.

"I believe we are well on the way to achieve these important aims," he said.

"The challenges going forward remain large, with climate change, forced displacement and pandemics threatening the gains we have made to improve the lives of billions.

"We will need to work even more closely with partners and continue to find new and innovative ways to leverage scarce development resources effectively," Kim said.

Earlier in a statement, the Executive Directors of the World Bank noted that in the first year of Kim's leadership, which began in July 2012, shareholders endorsed two ambitious new goals for the institution: to end extreme poverty by 2030, and to promote shared prosperity.

In pursuit of these goals, the Board endorsed a World Bank Group strategy that presented a basic blueprint for modernisation: create global practices to promote better flow of knowledge across sectors, regions, and the Bank Group.

Board members welcomed an increased focus on the Global Public Goods agenda and financial innovation under his leadership.

They also highlighted that Kim encouraged the institution to ramp up its work on climate change, both in intellectual leadership and in financing, with an announcement in the fall of 2015 to increase climate financing potentially to 28 per cent of total commitments by 2020, based on client demand.

In the meeting between Kim and the Board, Kim stated that his highest priority going forward is institutional stability and deeper staff engagement as he paid tribute to the high caliber of the bank's dedicated and professional staff.

Kim also pointed to this year's IDA-18 replenishment and the need to ensure that they mobilise record funds for the poorest countries and with the support of donors, develop innovative new ways to leverage scarce development resources.

6. Banks will soon be armed better to resolve stressed assets: Arun Jaitley

Finance Minister Arun Jaitley today said banks, especially the public sector ones, will be armed better soon to resolve the stressed assets as he expects the winter session of Parliament to clear amends to the Prevention of Corruption Act (PCA).

By: PTI

Finance Minister Arun Jaitley today said banks, especially the public sector ones, will be armed better soon to resolve the stressed assets as he expects the winter session of Parliament to clear amends to the Prevention of Corruption Act (PCA).

"We need to give public sector banks level-playing field with others. The ability of private sector banker to settle on a stressed loans would depend entirely on banking considerations but a state-run bank is still constrained by some of the obsolete laws which exist", Jaitley said.

While addressing the SBI Economic Conclave, he said, "unlike the private sector bankers the state-run banks are constrained by being public servants and the present laws on corruption (PCA of 1988) makes them wary of settling issues purely on commercial considerations".

"I think the fear of consequences at time dilutes the process of resolution", he said adding amending the present corruption law would go a long way in changing this.

Stating that the accountability of public servants who act on such matters are guided by larger public interest, he said, "I think the law also which deals with this is in the final stages of its amending process. It's before the standing committee and I hope in the next session it comes up.

"Yes, the PCA of 1988 constrains a lot of public servants, and also banking" he said.

Admitting that the state-run banks, whose bad loans have topped 15 per cent of their assets in the June quarter, are in bad shape, he said, "We are still struggling to find answers for the health of state-run banks. But we can't push it below the carpet, we have to flag the issues. Therefore, while we flag this issue, the Reserve Bank, the government and Parliament have empowered the banking system with adequate powers."

Bad loans spiked even for the most competitive ones like HDFC Bank in the recent quarters after the Reserve Bank last December had identified around 130 most stressed accounts and asked banks to make higher provisions through the December and March quarters and completely clean their balance-sheets by March 2017.

As a result the bad loans ratio more than topped 14 per cent of the system as of the June quarter.

The Cabinet in April cleared some key amendments to the PCA of 1988 seeking to classify corruption as a heinous crime and longer prison terms for both bribe-givers and bribe-takers. The changes will also ensure speedy trial, limited to two years, for corruption.

The measures include penal provisions being enhanced from minimum 6 months to 3 years and from maximum five years to seven years thus bringing it to the heinous crime category.

The ambit of the existing Act will be enhanced to make commercial entities liable for inducement of public servants. Under the present law, only individuals are liable.

The proposed amendments Bill also provides for issue of guidelines to commercial organisations to prevent persons associated with them from bribing a public servant.

Non-monetary gratification will also be covered within the definition of the word gratification in the PCA 1988. The Prevention of Corruption (Amendment) Bill, 2013 was introduced in the Rajya Sabha on August 19, 2013, and subsequently referred to the Standing Committee.

7. Managing risk, a challenge for bond market: RBI's Gandhi

OUR BUREAU

The inability of emerging market economies to raise money in their own currency outside their borders remains the prime challenge for developing their debt markets, according to R Gandhi, Deputy Governor, RBI.

Speaking at a CII event in Mumbai on Tuesday, Gandhi said "India has started the 'Masala bonds' which is picking up but the process still has some way to go."

Another important challenge for the development of a vibrant and robust bond market is the issue of managing risk, Gandhi observed.

"While the borrowing cost for highly rated companies has been low, bond market for the risky borrower is becoming expensive. From the investor's perspective, credit derivative markets like credit default swap (CDS) should be available so as to give confidence to investor to fund risky borrowers. Experience with CDS in India has been poor with few deals reported. It is of paramount importance to have an active credit derivative market to accurately price risk to take the bond market to the next stage."

Safety concerns

He said that the concerns of safety had been addressed by and large with the DvP (delivery of bonds versus payment of money) already in place.

"Efforts to go for CCP-guaranteed settlement need to weigh its advantages with the likely high cost of such guarantee. Similarly, electronic platforms for trading need to be developed, but one must keep in mind that the large number of bonds, compared to G-secs, would be a hindrance to order matching systems. Would quote-driven systems be preferable?" he asked.

He said conditions must be created to attract new investors into the market while retail investors could absorb the credit risk through wider dissipation.

8. More investments needed in infra, rural development: Jaitley

OUR BUREAU

Union Finance Minister Arun Jaitley on Tuesday stressed on the need for higher investments in infrastructure and rural development in the country.

He was addressing delegates at the State Bank of India (SBI) Banking and Economics Conclave here.

Jaitley said there was a need for a boost in the infrastructure sector as investment deficit was still very large.

The country also needs to concentrate on improving the health of the public sector banks (PSBs). "We are looking at the banking sector. Fear of consequences sometimes delays dispute resolution. PSBs are still constrained by old laws when it comes to dispute resolution," he said.

On GST implementation, the Finance Minister said that it is reasonably possible to meet the April 1, 2017 deadline to roll out the new indirect tax regime. The State Governments have realised the importance of competitiveness and attracting investments.

GST and reforms

Still, GST is troublesome and involves completely changing the powers of the Union and the States Governments. Its progress shows that the country has the stamina for reforms, he said.

On GST Council, he said that it can look into issues of dual control and threshold rates with the States demanding that they be given the legal and administrative powers for imposing a tax on entities with a turnover of up to ₹1.5 crore, he said.

On the decision to merge the Railway Budget with the General Budget, Jaitley said that the Railway budget had become a small percentage of the Union budget over the years and therefore there was a need for convergence the two.

The decision to merge the two Budgets was mooted by Railway Minister Suresh Prabhu and supported by NITI Aayog. The decision on the merger of two Budgets will also save Indian Railways ₹9,700 crore it pays as dividend to the exchequer. On the security situation in the country, he said the country had a major security challenge and therefore they was an element of uncertainty.

A lot of national resources get diverted in that direction. However, the security challenge will always be a priority over every other requirement of the country because sovereignty is the first priority, Jaitley said.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**