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Dear Comrades,

29th December, 2016

News of Interest 29th Dec

QUOTE FOR THE DAY

"THE PEOPLE WHO INFLUENCE YOU ARE THE PEOPLE WHO BELIEVE IN YOU."

HENRY DRUMMOND

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Business Standard

1. Demonetisation: RBI relaxes loan repayment norms

This relief applies to dues payable between November 1 and December 31

Nupur Anand

The Reserve Bank of India (RBI) has further relaxed the norms for bad loan classification for small borrowers.

The latter now get an additional 30 days to repay, over and above the 60 days extended repayment period announced last month. This relief applies to dues payable between November 1 and December 31, in a concession to the effect of demonetisation. Eligible for the additional time are working capital accounts and crop loans, besides term loans for business purposes.

In all cases, the maximum limit of loan sanctioned must have been less than Rs 1 crore. Normally, loans unpaid for 90 days are treated as non-performing assets. The first category in this is termed substandard asset, and the relaxation is on this. This loan classification relaxation will apply for banks, non-banking finance companies and housing finance companies, primary agriculture cooperatives, state cooperative banks and district central cooperative banks.

RBI had requested that small borrowers needed more time to repay after the cash crunch in the economy, once Rs 500 and Rs 1,000 notes were declared to not be legal tender.

Many of these small accounts were expected to default after demonetisation. The central bank had said earlier that this was a short-term deferment of the classification as substandard.

2. Cricketer, poet, singer, central banker: Meet Viral Acharya

A notification on the RBI website said Acharya would head the monetary policy and research cluster

Anup Roy

Viral Acharya, professor at New York University's Stern School of Business, will take over as deputy governor of the Reserve Bank of India (RBI) for three years, effective January 20. Though the RBI traditionally has four deputy governors, one post has been vacant since Urjit Patel, who was deputy governor, became governor three months ago. A notification on the RBI website said Acharya, 42, would head the monetary policy and research cluster.

Deputy Governor R Gandhi, who will retire on January 20, is in charge of the monetary policy department.

The post of deputy governor in charge of monetary policy is given to economists of repute and in most cases, holders of the office have been lateral entrants.

Viral Acharya new RBI deputy governor for monetary policy

Acharya is considered a shining star in the field of finance.

The resume of Acharya runs into 22 pages, and is stuffed with his qualifications, experiences and numerous research papers that have been presented in seminars and published over the years in prestigious journals.

Yet, the 'General' tab is short: "Indian, Born on 1st March 1974, and Married".

In an email response to Business Standard, Acharya said he would not want to give interviews to the media and would lie low for a bit, taking the bearings of the new job.

"I am honoured at being offered the opportunity and hope to give it my best," he, however, replied.

Cricketer, poet and singer

Viral Acharya grew up in South Mumbai, in a family of medical practitioners. He did his PhD in finance at New York University's Stern School of Business in 2001. In many ways, the career path of the "poor man's Raghuram Rajan" (as Acharya once described himself jokingly) is similar to that of the former RBI governor.

Like Rajan, Acharya is an Indian Institute of Technology (IIT) alumnus (B.Tech in Computer Science and Engineering) before he switched to finance and economics and became a 'rising star in finance', much before he turned 40. Both are passionate

about cricket and, in fact, Acharya was one of the lead players in IIT Bombay's cricket team. Acharya mentions Rajan as one of the references in his resume.

However, something that Rajan doesn't have in his resume, but Acharya has, is that the latter was the President of India Gold Medallist for the highest grade point average (GPA) and the President of India Gold Medallist for the best academic and overall proficiency at IIT.

His resume says his research interests are regulation of banks and financial institutions, corporate finance, credit risk and valuation of corporate debt, asset pricing with a focus on the effects of liquidity risk, sovereign debt and international finance. He is also a strong proponent of bad bank, or a bank created to hold bad assets of banks, something that Rajan opposed while at RBI.

Acharya has written widely cited papers, either alone, or co-authored with reputed economists and finance gurus, including two with Raghuram Rajan. Several of these papers have also received the best paper awards at the seminars they were presented.

The tone of his one particular paper, co-authored with Rajan, "Sovereign Debt, Government Myopia and the Financial Sector", describes how myopic governments "seek popularity but can nevertheless commit credibly to service external debt".

Nevertheless, "more myopic governments default less often, but tax in a more distortionary way and increase the vulnerability of the domestic financial sector to future government debt default".

In one of his papers, Acharya established how public sector banks, even if financially weak, did better in a crisis situation than their private sector peers because of access to government guarantee and forbearance.

In a 2015 paper with Indian School of Business professor Krishnamurthy V Subramanian, Acharya estimated that the Indian banking sector would require about \$55 billion in market value of equity to maintain an 8 per cent capital ratio, and that in a shock scenario, "the Indian financial sector's capacity to recapitalize itself in future stress is worth a careful scrutiny".

Krishnamurthy, a friend of Acharya through a long association in research, described the deputy governor-elect as a 'workaholic', who does research on the phone, email and Skype video chats.

"Besides being a very good person, he is also a workaholic, who pushes hard trying to get stuff done," said Krishnamurthy. "He is a good choice," said Krishnamurthy.

Acharya's hobbies include tennis, running, chess, travelling, poetry, singing and composing (Indian semi-classical). But what does he himself say about his real passion? His website has a clue.

"Music is my passion. I love listening to most kinds of music. I have a slight preference for Indian and Western classical music and a strong preference for light Indian film music, especially the songs composed by S.D. Burman and R.D. Burman and rendered by Kishore Kumar," his personal website says.

In New York and New Jersey, Acharya sang as a part of a local Indian film music band called "Surbahaar". The proceeds of the performance went for charity, among others, to literacy projects in India for Pratham, an NGO that he co-founded and was a chairman.

Just as he writes serious research papers, he composes poetry and music with élan.

In 2005-06, he composed his first album, "Yaadon Ke Silsile – An Ode to Friends and Some Romantic Moods." Hopefully, the grey world of central banking in a nation hit by demonetisation would lighten up with some of his notes soon.

3. RBI must upgrade RTGS, NEFT to operate 24x7: Digital payments report

Consider outsourcing the function of operation of payment systems like RTGS, NEFT:
Report suggests

IANIS

The report on Digital Payments, prepared by the committee headed by former Finance Secretary Ratan P. Watal, was put in public domain on Tuesday and suggests outsourcing electronic fund transfer systems like RTGS and NEFT and making the service available round the clock.

"RBI should progressively increase their timings over due course. Upgrade payment systems like RTGS and NEFT to operate on 24x7 basis in due course of time. Consider outsourcing the function of operation of payment systems like Real Time Gross Settlement (RTGS) and National Electronic Fund Transfer (NEFT)," the report said.

"While moving RTGS to a separate operator is not envisaged for now - a cost benefit analysis may be initiated as an initial step. Over time, multiple payment system operators should be encouraged and payment systems should be operated by market entities," it added.

The government put the report, which has recommendations to strengthen the digital payments ecosystem in the medium term, in public domain on Tuesday for a period of 15 days to invite suggestions and comments.

"Decision on the report will be taken after considering the comments or suggestions received on the report," Finance Ministry said in a notification here.

The report also suggests formation of a new Payments Regulatory Board, independent from the functioning of central banking.

"Make regulation of payments independent from the function of central banking. The statutory status of the new Board, within the overall structure of RBI, called Payments Regulatory Board (PRB) should be enshrined in the Payments and Settlement Systems Act, 2007," it said.

The report provides a framework for smooth and speedy transition towards a digital payments economy.

It recommends inclusion of financially and socially excluded groups and assimilation of emerging technologies in the market, while safeguarding security of digital transactions and providing level playing to all stakeholders and new players who will enter this new transaction space.

It has suggested inter-operability of the payments system between banks and non-banks, up-gradation of the digital payment infrastructure and institutions and a framework to reward innovations and for leading efforts in enabling digital payments.

Towards finalisation of the report, the Committee engaged extensively with all stakeholders and technology groups including Reserve Bank of India, state governments, Comptroller Auditor General of India, payment companies, technology companies and the academia.

The Committee on Digital Payments, constituted by the Ministry of Finance on August 23, had submitted the report to Finance Minister Arun Jaitley on December 9.

Financial Express

4. Start-ups in India set to get Narendra Modi govt tax holiday booster shot

The government is considering a proposal to raise the tax holiday for start-ups from the current three years, aimed at further boosting an eco-system for budding entrepreneurs and job seekers.

By: Banikinkar Pattanayak

The government is considering a proposal to raise the tax holiday for start-ups from the current three years, aimed at further boosting an eco-system for budding entrepreneurs and job seekers, which could be announced in the coming Budget. Although the Department of Industrial Policy and Promotion (DIPP) has recommended a seven-year tax holiday, the finance ministry may agree to give a tax breather for four-five years on profits made by the start-ups, an official source told FE. "The proposal to offer greater tax relief to start-ups is under consideration," confirmed another source.

According to the Finance Act, 2016, start-ups are eligible to get income tax exemption for three years in a block of five years, if they are incorporated between April 1, 2016 and March 31, 2019. To get these benefits, a start-up needs to obtain a certificate of eligibility from the inter-ministerial board of the DIPP.

Given the fact that start-ups hardly make any profits in initial years and most of them even fail to survive, commerce and industry minister Nirmala Sitharaman has been pitching for greater tax support to start-ups, as they have the potential to not just create entrepreneurs but also generate massive jobs.

In their meetings with Sitharaman earlier this year, various start-ups had urged her to persuade the finance ministry to raise the period of the tax holiday.

Huge losses incurred by even the established e-commerce players — including Amazon, Flipkart, Paytm and Urban Ladder — in recent years has only reinforced the need to support start-ups for a longer period, founders of some of the start-ups had told FE earlier. According to the latest report by Kotak Institutional Equities, losses of 14 e-commerce companies — including e-retailers, furniture sellers, travel portals and food ordering and delivery players — jumped an annual 138% to Rs 10,670 crore in 2015-16, thanks to increased ad spend and employee costs.

Prime Minister Narendra Modi had on January 16 unveiled a package of incentives to boost start-ups, offering them a tax holiday and an inspector raj-free regime for three years, and capital gains tax exemption.

He also announced a 'fund of funds' of R10,000 crore, which is to be managed by SIDBI. The fund will invest in Sebi-registered Alternative Investment Funds which, in turn, will invest in start-ups. Thus, this fund is to act as an enabler in attracting private investment in the form of equity and quasi-equity for start-ups.

The Prime Minister had also announced a liberalised regime to help start-up businesses register patents, for which the fees were to be slashed 80%, apart from an easy exit option that would be provided under the bankruptcy Act so that start-ups can exit within 90 days.

India is the world's youngest start-up nation with 72% founders less than 35 years, and is home to an estimated 4,750 start-ups, the highest after the US and the UK. As many as 1,00,000 people will have been employed in the country by the end of this year, according to a report by IT industry body Nasscom.

5. Demonetisation: Highway operators' toll collection losses to be compensated; Cabinet to decide

The Union Cabinet will take the final call on the ways private sector highway operators could be compensated for their losses on toll collection due to the government's move to waive off user fees.

By: Surya Sarathi Ray

The Union Cabinet will take the final call on the ways private sector highway operators could be compensated for their losses on toll collection due to the government's move to waive off user fees in the wake of the currency crunch after demonetisation.

Sources in the ministry of road transport and highways (MoRTH) said a Cabinet note is being prepared now which will be placed before the government's highest decision-making body soon and depending on its directive, the National Highways Authority of India (NHAI) will spell out the compensation.

After demonetisation, the government had suspended toll collection on all national highways with effect from November 23, which continued till the midnight of December 2. However, compensation is required to be paid to around 85 BOT (toll) projects of NHAI operated by private players which collect around Rs 40 lakh as toll each day.

NHAI had in a circular on December 6 proposed to provide the BOT (toll) concessionaires immediate relief by proposing to pay 90% of the interest amount on submission of the required documents, as provided in the financial/refinancing package (under clause 34.5 of the concession agreement) for the period during which tolling was suspended.

Concessionaires, however, were not happy since the compensation does not cover the debt repayment obligation. They wanted it to be viewed under clause 34.4 (a) which states that if the aggregate financial effect exceeds the higher of Rs 1 crore or 0.5% of net realisable fee in any accounting year, it comes under clause 41 of the concession agreement, which is Change in Law.

A senior NHAI official, however said: "The model concession agreement for BOT (toll) projects suggest that NHAI would enhance the lease period by the number of days the concessionaire failed to collect users' fee due to force majeure. We intend to go by the agreement."

"Their actual collection with our estimates could vary," he said, adding that the mode of the compensation is yet to be finalised, but it might not take long to decide.

Business Line

6. The wait outside bank branches continues!

The long queue outside bank branches is no longer a surprise. But that it gets longer towards the second fortnight of the month can make anyone guess the plight of pensioners, widows and senior citizens who queue up at least 2 hours ahead of business hours to get the pension.

Here in this temple city of Madurai it was a sight to see aged women, some of those who probably are not fit to take care of their daily needs, get off auto rickshaws to reach the SBI main branch located opposite the railway station

The slight drizzles since morning and the otherwise pleasant morning for others who fret the heat seemed to pose further trouble to these aged people

Sagi, a widow said that she has not received the Rs. 1,000 monthly pension for the last 2 months

"I have an account at the Jaihindipuram branch but the officials there said that I will have to go to the main branch to get my pension. On my arrival here at 9 am I was told that I will have to get it from the home branch.

It's been a difficult 2 months. Though I do small errands to eke out a living, to get this pension I have walked up to the branch at least 7-8 times in the past 6 weeks. It's frustrating as there is no clear direction from the officials," she said.

But for the queue business seemed to go on as if nothing unusual had happened in the last couple of weeks.

The branch in fact boasts of a home loan mela amidst this fury.

7. Pressure mounts on rupee ahead of the New Year

GURUMURTHY K

The rupee's drop below 68 is causing jitters in the currency market. From a high of 67.71 on Monday, the currency has reversed sharply lower, breaking below the psychological level of 68. The currency had closed at the day's low of 68.24 on Wednesday.

The strong break below 68 has cleared the way for the rupee to revisit the previous low of 68.86. Additionally, if the rupee continues to trade below 68, the possibility of it falling to new lows cannot be ruled out as we head into the new year.

FPIs sell more

Foreign portfolio investors (FPIs) are continuing to press the 'sell' button. They sold \$725 million in the debt segment last week. The Indian market has been witnessing FPI outflows since November. These investors have now sold \$5.8 billion in debt and \$4 billion in equities since November. The rupee may continue to remain under pressure if FPIs continue selling.

Strong dollar

The dollar index (103.2) is consolidating around 103 for almost two weeks now. However, the broader view remains bullish. Resistance is at 103.65.

A strong break above this hurdle can trigger a fresh rally in the index to 105.45. It will also keep the medium-term bullish outlook intact for targets of 106 and 107. Such a strong rally in the dollar index may drag the Indian rupee to fresh lows, going forward.

The sharp reversal from 67.71 in the past week has turned the short-term outlook negative for the currency. Immediate resistance is at 68.

A break above it may give some relief to the rupee and take it higher to 67.8 or 67.7 in the near term.

Support is at 68.35, which is likely to be tested in the near term if the rupee continues to trade below 68. A break below 68.35 can drag the rupee lower to 68.80 and 68.85 in the short term. Inability to break above 68.85 can trigger a bounce back move to 68.50 and 68.35.

On the other hand, if the rupee decisively breaks below 68.85, it can fall to 69 immediately.

Such a break will bring back the broader medium-term bearish view into the picture.

A subsequent break below 69 will see the rupee tumbling to 69.6 and 70.25 over the medium term.

8. South Indian Bank unveils mobile banking app for NRIs

OUR BUREAU

South Indian Bank has introduced a full-fledged NRI-focused mobile banking application called SIB Mirror+ across major mobile platforms.

The new app was launched after the path-breaking 'E-Lock' feature that provided a single tap solution to fully secure all digital transaction from frauds.

SIB Mirror+ equips the customers to perform almost all banking transactions from their smart phones. The app comes with self-registration facility for ease of activation and utilises NEFT facility for interbank fund transfers.

It also provides bill payment facility, instant mobile/DTH recharge, cheque book request and 24x7 'within bank' fund transfer.

The innovative feature 'Social Money' allows customers to transfer money from and to their friends through social media channels like Facebook and Whatsapp.

V G Mathew, MD & CEO, said: "By launching this latest technology product, South Indian Bank has yet again delivered on its promise of offering next generation banking services to its customers, especially the NRIs."

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY

