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Dear Comrades,

26th December , 2017

### News of Interest 26<sup>th</sup> DEC

#### MOTIVATIONAL QUOTES

**"I BELIEVE IF YOU KEEP YOUR FAITH, YOU KEEP YOUR TRUST, YOU KEEP THE RIGHT ATTITUDE, IF YOU'RE GRATEFUL, YOU'LL SEE GOD OPEN UP NEW DOORS. "**  
JOEL OSTEEN

#### HIGHLIGHTS

1. BANKS LOST NEARLY RS 17,000 CR TO FRAUDS LAST FINANCIAL YEAR, SAYS FINMIN
2. STATSGURU: TWIN BALANCE SHEET PROBLEM
3. FINANCE MINISTRY ASKS PSBS TO RATIONALISE OVERSEAS, DOMESTIC BRANCHES
4. LIQUIDITY DIPS, INTEREST RATES SET TO RISE
5. BAD LOANS TAKE CENTER STAGE IN BANKING INDUSTRY

#### **Business Standard**

##### **1. Banks lost nearly Rs 17,000 cr to frauds last financial year, says FinMin**

An inter-disciplinary standing committee on cybersecurity has been constituted by the RBI

Press Trust of India

Banks lost a whopping Rs 16,789 crore on account of frauds in the last financial year, the finance ministry said in the Lok Sabha on Friday.

The Reserve Bank has informed that as per the fraud monitoring reports submitted by the scheduled commercial banks and select financial institutions, "the amount lost on account of frauds during 2016-17 was Rs 16,789 crore", said Minister of State for Finance Shiv Pratap Shukla in a written reply. He further said an inter-disciplinary standing committee on cyber security has been constituted by the RBI comprising academia, information security audit, forensic and cyber security experts.

The committee reviews, inter alia, threats inherent in the existing or emerging technology and suggests appropriate policy interventions.

In another reply, he said incidents of bank robbery, theft, dacoits and burglary were reported from different parts of the country during 2016-17.

The amount involved in such incidents totalled about Rs 65.3 crore.

Further, 393 such cases involving Rs 18.48 crore have been reported in the first half of the current fiscal.

Shukla said the RBI has advised banks from time to time to enhance security arrangements at their branches and ATMS.

In another reply, Minister of State for Finance P Radhakrishnan said the new fake currency (Rs 2,000 and Rs 500) seized in the recent past are scanned or photocopied notes.

"In most of these cases, the copied notes sport similar serial numbers," he said.

He said as per available records, the agencies concerned have not reported any high quality counterfeit in the new Rs 500/2000 denomination banknote as defined in the Unlawful Activities (Prevention) Act.

## **2. Statsguru: Twin balance sheet problem**

According to the RBI's Financial Stability Report, new investment proposals have declined significantly in Q2FY18

### Ishan Bakshi

The investment scenario in the country continues to be grim. The latest data shows gross fixed capital formation, which connotes investment, declined from 31 per cent in Q1FY17 to 28.9 per cent in Q2FY18.

What is even more worrying is that, according to the RBI's Financial Stability Report, new investment proposals have declined significantly in Q2FY18. The silver lining is, as shown in Chart 1, the number of stalled projects has also declined.

Gross non-performing advances (GNPA) of scheduled commercial banks (SCBs) increased from 9.6 per cent to 10.2 per cent between March and September 2017. For public sector banks, it was even higher at 13.5 per cent at the end of Q2FY18, with net NPAs at a staggering 7.9 per cent.

The asset quality of banks deteriorated across broad sectors, especially in industry, between March and September. As shown in Chart 3, sectors such as industries, mining and quarrying, food processing, engineering, construction, and infrastructure all registered an increase in their stressed advances ratios.

The share of large borrowers in both bank loans and GNPA also declined between March and September (Chart 4). But, while the stressed advances of large borrowers increased by 2.4 per cent between this period, advances to large borrowers classified as special mention accounts-2 (SMA-2) increased sharply by 56.5 per cent.

According to the report, the 470 cases admitted by the National Company Law Tribunal (NCLT) were at various stages of insolvency process. But, resolution plans or liquidation orders were approved only in 25 cases so far.

## **Financial Express**

### **3. Finance Ministry asks PSBs to rationalise overseas, domestic branches**

The finance ministry has asked public sector banks to look at rationalising their domestic and overseas branches as part of the reform process to strengthen their financials

By: PTI

The finance ministry has asked public sector banks to look at rationalising their domestic and overseas branches as part of the reform process to strengthen their financials. The banks have been advised to pursue closure of loss making domestic and international branches as part of capital saving exercise, official sources said. There is no point in running loss making branches and putting burden on the balance sheet, so banks should look at not only big savings but also small savings like these for improving overall efficiency, sources said. Many banks, including State Bank of India (SBI) and Punjab National Bank (PNB), have already taken initiative. Besides, Indian Overseas Bank has rationalised the number of regional offices in the country by reducing 10 regional offices from existing 59 with an objective of optimum utilisation of resources and reduction in administrative costs.

With regard to overseas branches, the ministry has asked the lenders to discuss consolidation and take a final call on closing some unviable operations. The ministry is of the view that there is no need of multiple banks in a single country, sources said, adding that banks can explore a single subsidiary formed with five-six banks coming together for conserving capital and realising economy of scale.

Besides the subsidiary model, public sector banks are also looking to close down branches or selling off subsidiaries to focus on markets that give them maximum returns. As part of the rationalisation strategy, PNB is exploring possibility of selling a stake in its UK subsidiary PNB International. Bank of Baroda and SBI are also examining the issue of consolidation. Bank of Baroda has presence across 24 countries through 107 branches/offices. It has 59 branches in 15 countries, while 47 branches operate through Bank's 8 overseas subsidiaries. The country's largest lender SBI has 195 foreign offices spread across 36 countries.

## **Economic Times**

### **4. Liquidity dips, interest rates set to rise**

By *Mayur Shetty*

For businesses, 2017 is a year of easy money, thanks to a demonetisation-powered surge in cash with banks that kept interest rates low. However, this is going to change. Now, there are clear signs that liquidity is reducing in the banking system and interest rates are set to rise.

RBI was forced to lend money to banks last week for the first time since demonetization. The drop in liquidity in the system is a fall out of advance tax outflows from banks, resulting into a cash squeeze. This was not a problem in the first three quarters of 2017 as demonetization had pushed up cash level in banks.

According to Aditi Nayar, principal economist, ICRABSE 0.32 %, the systemic liquidity deficit — triggered by advance tax payments for Q3 FY2018 and recent increase in credit off take — to widen with GST payments. As a result of the squeeze in liquidity, yields on the 10-year government bonds rose to 7.25%. Long term home loans are available at 8.35%. This is the narrowest spread between the 10-year G-secs and home loans in recent times. The 10-year yield had dropped to 6.2% a year earlier.

Another reason for the cash shortage is currency in circulation (CIC) continues to rise, defying RBI's claims that it has stabilized. CIC rose to Rs 16.9 lakh crore for the

fortnight ended December 15, 2017, up from Rs 16.8 lakh crore in the previous one. This has been rising fortnight upon fortnight and is now at the same level as March 2016. Economists are now saying that CIC level is keeping with long-term trend lines and demonetization is turning to be a blip.

The rise in bank loans is another indicator that interest rates will come under pressure. According to RBI data, outstanding bank credit as on December 8, 2017 stood at Rs 80.3 lakh crore — a year-on-year increase of 9.8%. This is a sharp jump from the 5% level at the beginning of the year and highest since October 2016.

Besides rising demand from corporates, the government is also expected to increase its borrowing. There are expectations that the government may raise farm spending during the current financial year after weaker than expected performance in Gujarat state elections. In its forecast for 2018, Standard Chartered Bank has said that it expects the government to deviate from the fiscal consolidation path and borrow more than planned.

## **Business Line**

### **5. Bad loans take center stage in banking industry**

K RAM KUMAR

Banks had to go through the mill in 2017. Bad loans, and provisions towards them, dented the balance sheets of most public sector banks (PSBs) and a few large private sector banks. Also, the RBI imposed regulatory sanctions under the prompt corrective action (PCA) framework on a host of stressed PSBs, with restrictions being placed on their management and activities, to ensure that they are nursed back to health.

All this happened amidst credit growth hitting multi-year lows. This in turn magnified the bad loans problem.

Surplus liquidity due to huge deposit accumulation during the demonetization period, coupled with a lack of credit appetite for most part of the year, triggered deposit and lending rate cuts without the central bank having to do much by way of rate cuts. Retail term deposits of over one year duration declined by about 50 basis points.

#### **Fall in lending rates**

The fall in lending rates (which declined almost 100 basis points), however, held no lure for corporates as they were still grappling with excess capacities. Those in a position to borrow, especially in the blue chip category, resorted to the bond markets.

As large and mid-corporate loans continued to turn sour, risk-averse banks went all out and pushed less risky retail loans — home and auto loans — and were successful in this endeavor.

Farm loan waivers announced by States such as Uttar Pradesh, Punjab, Maharashtra and Karnataka became a cause for concern both for banks and the RBI, as it could undermine credit discipline, increasing the possibility of reduced credit flows to this crucial sector.

#### **Stress likely to reduce**

The RBI, in its financial stability report (FSR), cautioned that as per its stress tests, the gross non-performing assets (NPAs) of the banking sector may go up to 10.8 per cent by March 2018 (from 9.6 per cent in March 2017 and 10.2 per cent in September 2017) and further to 11.1 per cent by September 2018. RBI Deputy

Governor NS Vishwanathan observed that the overall risks to the banking sector arising from asset quality concerns continue to persist.

Bankers, however, are hopeful that once the 40 large bad loans with exposure aggregating about ₹3.50 lakh crore are tackled under the Insolvency and Bankruptcy Code (IBC) process, and the economy picks up, they could get on with their core business of lending with more vigor in 2018.

They see either resolution or liquidation coming through by April 2018 in the case of the first set of 13 RBI-identified large corporate accounts, which have been proceeded against under IBC. By September 2018, the same would have been happened in the case of the second set of 28 large corporates.

### **Capital injection and PCA**

Moreover, the proposed ₹2.11-lakh crore capital infusion (recapitalization) into PSBs is expected to galvanize them into action — lend and closely monitor loans for signs of incipient stress.

RBI Governor Urjit Patel has observed that recapitalization will set up a calibrated approach whereby banks that have addressed their balance sheet issues, and are in a position to use fresh capital injection for immediate credit creation, can be given priority while others shape up to be in a similar position. This is expected to bring market discipline into a public recapitalization programme.

With almost 10 PSBs being put under the PCA framework, there was intense speculation that many of them would be merged with stronger banks.

The RBI promptly scotched reports of closure of these banks.

Referring to the performance of banks in FY17, the FSR said operating expenses slowed down on account of rationalization of branches and manpower. The RBI also observed that increasing focus on the business correspondent model has resulted in a steady decline in new brick-and-mortar branches. In FY17, newly opened branches declined by more than 30 per cent. A disconcerting feature, according to the banking regulator, is that 45 per cent of the new branches were opened in tier I centers. A declining proportion of the branches were opened in tier VI centers (population less than 5,000) in recent years.

The Financial Resolution and Deposit Insurance (FRDI) Bill, 2017, became a hot button issue due to concerns that depositors' money may be on the line if a bank goes belly up in the future. In the wake of these concerns, this Bill, which was approved by the Union Cabinet in June 2017 for introduction in Parliament, was referred to a Joint Parliamentary Committee.

While the RBI and the Centre have rescued (bailed out) distressed commercial banks from collapsing by merging them with other banks in the past, the bail-in clause in the FRDI Bill has stoked fears that depositors will lose their money should their bank go down the chute in the future. The last commercial bank to go into liquidation was Kerala-based Palai Central Bank in the early 1960s. Finance Minister Arun Jaitley has sought to allay such fears.

### **The year ahead**

Bankers hope that once recapitalization (in the case of PSBs) comes through over the next few months, the aforementioned 40 large bad loans are out of the way, and the

economy gathers strength, banks will shrug off risk aversion and proceed full steam ahead on the lending front.

They see credit demand coming in, among others, from the retail and infrastructure segments. On the deposits side, the declining trend in deposit rates could reverse after a couple of quarters as banks may need to mobilize deposits to meet credit demand.

With kind regards,

Yours Comradely,



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