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**Dear Comrades,** **20 th February , 2017**

**News of Interest 20th FEB**

**MOTIVATIONAL QUOTES**

"THE PAST CANNOT BE CHANGED. THE FUTURE IS YET IN YOUR POWER."

UNKNOWN

**1. NO PLAN TO DEFER IPO BY 3 YEARS: BANDHAN BANK**

**2. AHEAD OF MERGER WITH SBI, ASSOCIATE STATE BANK OF TRAVANCORE TO RAISE UP TO RS 600 CRORE**

**3. BANKS LOOK FOR INSURANCE AS CYBER THREATS INCREASE**

**4. SALE OF BAD LOANS TO ARCS HIT FOR SECOND YEAR RUNNING**

**5. UNIONS SEEK JAITLEY'S INTERVENTION TO RESOLVE IDBI BANK WAGE ISSUE**

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**7. CURRENCY PRINTING PRESSES PLAYED VITAL ROLE IN REMONETISATION: JAITLEY**

Business Standard

### 1. No plan to defer IPO by 3 years: Bandhan Bank

Reports earlier said that Bandhan Bank would seek permission to defer IPO by three years

Indivjal Dhasmana

The Kolkata-based Bandhan Bank is planning to come out with an initial public offering (IPO) in 2018 after it completes three years of operations and not six years as it was thinking earlier.

There were reports earlier that Bandhan Bank would approach the Reserve Bank of

India (RBI) to allow it to come out with an IPO in six years against stipulated three years on the lines of those given licence on tap.

However, Bandhan Bank founder, Managing Director and Chief Executive Chandra Shekhar Ghosh said, "We personally thought about it (postponing IPO for three years). We thought whether we can get an opportunity to come out with an IPO in six years on a par with those receiving licence on tap. But, now we are planning to come out with it in three years by 2018."

He said the bank has not approached RBI for allowing it to defer IPO by three years. Earlier, Ghosh had said he was not very comfortable listing the entity within the stipulated three years.

"If given an option, we would like to delay the IPO. The call (for floating an IPO) will come depending on the business growth," he had said.

On competition from entry of new small and payments banks, Ghosh said there is a big enough space for everyone.

"When I started the bank, our advisors told us that in the first one year we can get the highest deposit of Rs 3,500 crore. But we got Rs 12,000 crore of deposits in the first seven months," he pointed out.

Bandhan began banking operations in August 2015 following its transformation from a microfinance entity to a bank. It mobilised deposits to the tune of nearly Rs 12,089 crore in the first seven months.

While major players, particularly public sector banks are reeling under huge non-performing assets, Bandhan Bank's gross bad debt was at 0.15 per cent and net NPA at just 0.08 per cent.

## 2. Ahead of merger with SBI, associate State Bank of Travancore to raise up to Rs 600 crore

Ahead of its proposed merger with parent SBI, State Bank of Travancore (SBT) will raise up to Rs 600 crore to shore up additional tier-I capital by issuing Basel compliant bonds on private placement

By: PTI

Ahead of its proposed merger with parent SBI, State Bank of Travancore (SBT) will raise up to Rs 600 crore to shore up additional tier-I capital by issuing Basel compliant bonds on private placement. The bank got approval of its Executive Committee today to raise the money, which will be added as its additional tier-I capital. "The executive committee of the board of directors of the bank at its meeting held on February 18, 2017 has approved the raising of up to Rs 600 crore by way of issue of Basel III compliant additional tier-I bonds by private placement," SBT said in a regulatory filing.

On Wednesday, the Union Cabinet cleared the proposal to merge State Bank of India (SBI) with five of its associate banks — three of which are listed and other two unlisted.

State Bank of Bikaner and Jaipur (SBBJ) and State Bank of Mysore (SBM) apart from SBT, are the three listed entities, while State Bank of Patiala and State Bank of Hyderabad are unlisted. However, there is time for the amalgamation to take shape as the complex merger process entails share swap as well as employee issues, among others.

Banks in India are augmenting their tier-I capital, to gradually align themselves with global Basel III Capital Regulations to strengthen capital planning by creating buffer against potential stresses on asset quality and consequential impact on performance and profitability. The standards are being implemented in phases since April 1, 2013 by Indian banks.

India is expected to get fully compliant with Basel III standards by March 2019. This will align full implementation of Basel III for Indian banks closer to the internationally agreed date of January 1, 2019.

## 3. Banks look for insurance as cyber threats increase

By PTI

With instances of cyber threats increasing, the banks, which are increasingly going digital prodded by government and regulators following note-ban, are looking for cyber insurance -- a fledgling industry vertical for general insurers but having large growth potential.

The country reportedly lost a whopping USD 4 billion in fiscal 2016 to cyber-crimes, while globally, the economic loss due to cyber-crimes stood at USD 455 billion in 2016.

According to insurance industry reports, cyber-crimes are growing at 40-50 per cent annually globally. Similarly, global cyber risk insurance premium stood at USD 3.5 billion in 2016, which was only USD 2.5 billion in 2015, amply indicating growing incidents of cyber-crimes across the world.

Country's largest lender State Bank, which fell victim to cyber frauds late last year, is now considering insurance to protect its over 30 crore customers.

"As we are now planning to take cyber covers for our customers, we have already asked one of the companies which are on the bank's panel of insurance advisers to prepare a report for us in this direction," SBI Managing Director Rajnish Kumar told PTI.

Similarly, Bank of Baroda, which had seen about 1 lakh of its debit cards being compromised in the recent episode, is also keen to go for such insurance covers in future.

"We are here to ensure protection of our customers and hence we will definitely go for cyber insurance cover as and when it was required for the bank," BoB Managing Director P S Jayakumar said.

While private sector lender Axis BankBSE -0.81 % is reported to have taken cyber insurance cover from HDFC Ergo, as many as 20 state-owned lenders are seriously in talks with insurers to get cyber insurance cover. The city-based private lender did not respond to text messages seeking for confirmation.

General insurers also see a rise in demand for cyber risk insurance.

"We are in talks with quite a few banks to provide cyber insurance cover to them," New India Assurance Chairman G Srinivasan said without divulging any details.

"Cyber threat is on the rise in recent times for the banks and therefore they must go for cyber insurance cover," Srinivasan said.

Bajaj Allianz General Insurance Chief Technical Officer for non-motor business, Sasikumar Adidamu, said cyber insurance has seen close to 20 per cent rise at Bajaj Allianz in the current fiscal. He also said that in-line with rising incidents of cyber threats, the industry has seen a 10-15 per cent uptake of cyber liability covers.

## 4. Sale of bad loans to ARCs hit for second year running

RADHIKA MERWIN

Sale of bad loans to Asset Reconstruction Companies (ARCs) that had gained considerable momentum four years ago has halved over the past two years. From about ₹50,000 crore in 2013-14 and 2014-15, bad loans sold by banks to ARCs have fallen to ₹20,000 crore in 2015-16 and slipped further to ₹15,000 crore in 2016-17.

The RBI demanding a higher down payment and the ARCs stretching themselves thin on capital have been the main reasons.

### Pricing logjam

The primary task of the ARCs is to acquire, manage and recover bad loans. After a lackluster beginning, banks started aggressively offloading their bad loans to these companies in 2013-14, lured by better pricing. This was thanks to deals done through the 'security receipts' (SR) route. Instead of taking upfront cash payment, banks were willing to accept delayed payment in the form of SRs. ARCs made a down payment of a minimum 5 per cent of the agreed value and the balance 95 per cent was redeemed against the SR, when the amount was finally recovered.

In August 2014, the RBI tweaked the rules and increased the upfront payment to be made by ARCs from 5 per cent to 15 per cent. This has impacted the returns for ARCs, which until then were able to make an internal rate of return (IRR) of 20-22 per cent on their investment.

The issue of insufficient capital also became more pronounced after the RBI's directive on higher down payment. Being a capital intensive business, ARCs have not been able to take on bad loans from banks at an aggressive pace.

There are about 21 ARCs currently with an aggregate capital of just around ₹4,000 crore. The bad loans in the banking system, on the other hand, are over ₹ 6.5 lakh crore.

### On the mend?

But, one of the proposals in the 2016-17 Budget that recently came into effect seeks to ease capital raising for ARCs.

One of the main reasons for investors shying away from infusing capital into ARCs was the cap on single ownership. Earlier, no single investor could hold more than 49 per cent. Inability to have a controlling stake in the business led to tepid investor interest.

But, the recent amendments, which allow a sponsor or promoter to hold up to 100 per cent have offered some respite to the ARCs.

"Edelweiss ARC has increased its capital from about ₹200 crore to over ₹800 crore. We have also tied up with CDPQ, one of the large pension funds in Canada for investment in stressed/distressed assets in India. Aggregate funds available for investment will be about ₹12,000-14,000 crore over the next 3-4 years," says Siby Antony, MD & CEO, and Edelweiss ARC.

**PARA quick fix**

The Economic Survey highlighted that the ARCs have found it difficult to recover much from debtors and the issue can be resolved by creating a 'Public Sector Asset Rehabilitation Agency' (PARA). The new entity can eliminate most of the obstacles currently plaguing loan resolution.

But industry players disagree. "I don't think a public sector ARC can improve the recovery process substantially. But given that the Centre does not have sufficient funds to recapitalize PSU banks, its choices are limited," says Nirmal Gangwal, Managing Director, Brescon Corporate Advisors, a corporate debt restructuring advisory firm.

He adds that allowing banks a second time restructuring for the next two to three years may be a better option. But economic recovery will be critical for this to work.

Antony feels that things could change for the better for ARCs soon. "It is wrong to gauge the success of ARCs based on past data, when dead assets were sold to ARCs as a last resort of recovery. Besides, pricing of such assets was not given due importance. With significant skin in the business by ARCs, pricing is critical, " he adds.

Further, with the Bankruptcy Code in place, the resolution process is expected to smoothen. "I believe SR redemption for new assets will be more than 100 per cent," says Antony.

**5. Unions seek Jaitley's intervention to resolve IDBI Bank wage issue**

OUR BUREAU

The All India Bank Employees' Association and the All India Bank Officers' Association have sought Finance Minister Arun Jaitley's intervention in the matter relating to wage revision of employees and officers of IDBI Bank.

CH Venkatachalam, General Secretary, AIBEA, said the minister should advice the bank's management to resolve the issue and expedite the settlement without any further delay.

While the wage revision settlement in the banking sector was concluded in May 2015, the revision which is due in IDBI Bank for the employees and officers with effect from November 2012 is still lingering on and remains inconclusive.

S Nagarajan, General Secretary, AIBOA, said despite various hurdles and constraints, IDBI Bank has been making its contributions very effectively in the banking sector and singling that Bank out without settling wage revision issue is highly frustrating and demotivating to the bank workforce.

Venkatachalam said "(IDBI Bank) Employees are highly agitated over the undue delay. We request you (finance minister) to intervene in the matter and advice the IDBI Bank management to resolve the issue and expedite the settlement without any further delay."

**6. Early warning system must to help banks assess borrowers: Survey**

LN REVATHY

“Indian banks should make full use of technology, automate and improve their credit monitoring techniques.

Taking the traditional route would only lead to more stressed accounts and rising NPAs. There is an urgent need for a separate early warning system (EWS), so bankers can predict and assess the health of the borrower pro-actively,” says Jaya Vaidhyanathan, President, BFSI and Strategic Business Initiatives, Bahwan CyberTek.

Sharing some key findings of a survey on Credit Monitoring Practices of Indian Banks, she said, “The top challenges are inadequacy of data and non-availability of skilled workforce. There is a need to tap the relevant data and make it more meaningful.”

Banks have expressed the need for more data to strengthen the credit monitoring process.

This is in addition to customer transactional and financial data (which banks have access to), say, external data about the industry, projects, government data and so on.

Incidentally, a majority of the banks in India are yet to completely automate the Special Mention Accounts — Signs of Incipient Stress (SMA-O) monitoring process; and their systems and IT capabilities are not Red Flagged Accounts (RFA)-compliant.

And currently, from a monitoring point of view, the key focus is on using internal data.

Total exposure size and payment delays seem to be the commonly used benchmarks to select customers for further investigation. Banks will have to take a holistic view, she added.

Availability of skilled workforce for credit monitoring purposes — possibly due to staff rotation and attrition — is also a big challenge for banks.

“This can be offset to some extent by automating the process. Automation is the key for banks to derive business benefits.”

The report titled ‘Practitioners’ Insights on Credit Monitoring’ was unveiled as part of an event organised by Bahwan CyberTek.

The survey was conducted between October 2016 and February 2017.

Respondents included senior bankers chosen from public and private banks, particularly from those banks whose total asset size comprised 42 per cent of the combined assets of all scheduled commercial banks in India, as of March 2016.

**7. Currency printing presses played vital role in remonetisation: Jaitley**

OUR BUREAU

Over three months after the government decision to demonetise ₹500 and ₹1,000 currency notes, Finance Minister Arun Jaitley on Friday said that normalcy has been restored in a short period.

"It was perhaps one of the biggest exercises of demonetisation and remonetisation in the world. Experts said it could take anywhere between seven months to one year for the situation to be normalised. But it was done in a few weeks without any major incidents of unrest in the country," he said at the Foundation Day ceremony the of Security Printing Minting Corporation of India (SPMCIL).

Praising the efforts of the currency printing presses, Jaitley said this was done as the presses of the Reserve Bank of India and SPMCIL worked without a break to remonetise by issuing new bank notes.

Economic Affairs Secretary Shaktikanta Das also highlighted the important role of SPMCIL in remonetisation, noting that workers worked in additional shifts to print currency and the notes were airlifted from the presses at Nasik and Devas to different parts of the country.

**24X7 shift**

SPMCIL initially ran two shifts, each with longer duration, he said, adding that in November and December, it operated on three shifts a day, that is, 24x7.

"The total quantum of notes which were printed during those days rose exponentially, which helped the government in the process of demonetisation," he said. Addressing the event, Praveen Garg, Joint Secretary in the Finance Ministry and Chairman and Managing Director of SPMCIL, said the company has become debt-free and plans to issue bonds this year. To normalise the currency situation, post-demonetisation, the currency presses of SPMCIL transported six crore notes of □500 denomination, amounting to □21,500 crore, by air.

With kind regards,

Yours Comradely,

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