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**Dear Comrades,**

**2nd January , 2017**

**News of Interest 2nd Jan**

**QUOTE FOR THE DAY**

**“ARRIVING AT ONE GOAL IS THE STARTING POINT TO ANOTHER.”**

**JOHN DEWEY**

- 1. BANKS SLASH RATES IN NEW YEAR GIFT; SBI LEADS AND PNB, UNION BANK FOLLOW**
- 2. LAKSHMI VILAS BANK RAISES RS 168 CRORE VIA QIP**
- 3. INSURANCE FIRMS, BANKS RUSH TO INVEST IN SMALL FINANCE BANKS**
- 4. POST-GST TAX BENEFITS: SOLUTION A MUST, OTHERWISE MAKE IN INDIA WILL DIE A PREMATURE DEATH**
- 5. I-T DEPARTMENT SCANNING DATA PILE TO DIG OUT UNACCOUNTED INCOME**
- 6. JAN DHAN ACCOUNT DEPOSITS DOUBLE TO RS 87,000 CR, I-T DISSECTS DATA**
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- 8. SBI LENDING RATE CUT: DEPOSITORS WILL HAVE TO BRACE FOR CUTS TOO**

Business Standard

**1. Banks slash rates in New Year gift; SBI leads and PNB, Union Bank follow**

The new rates come into force from today

Abhijit Lele

The country's largest bank State Bank of India (SBI) announced a steep interest rate cut in several years on Sunday, by reducing its marginal cost of funds based lending rate (MCLR) by 90 basis points (bps) across all maturities.

With this cut, SBI has passed on benefit of 200 bps since January 2015 to customers, which is more than 175 bps reduction in the Reserve Bank of India's (RBI) policy rate cut in the same period.

The new rates come into force from today. SBI's one-year MCLR stands reduced to 8% from 8.9%, while the rate on overnight loans is now 7.75%, against 8.65%.

Banks are flush with funds after the note ban, with Rs 12.4 lakh crore having been deposited with banks till December 10. SBI chairman Arundhati Bhattacharya said, "There is huge liquidity with the bank due to the large flow of deposits. This has driven us to reduce lending rates, which, hopefully, will kickstart credit demand and growth."

Two other public sector lenders - Punjab National Bank (PNB) and Union Bank of India - also slashed their MCLR rates on Sunday. Delhi-based PNB cut lending rates by 70 bps, while Mumbai-based Union Bank reduced its MCLR by 65 bps to 90 bps across different tenors.

Senior bank officers said other lenders would follow suit and reduce loan rates by 50-100 bps to remain competitive. Also, the actual benefit to borrowers will be lesser than the extent of the MCLR cut due to the spread that banks charge over the loans rate.

The large deposits that came into banks since November 8 had raised expectations that banks would have room to cut lending rates, which is seen as vital to increase credit growth and spark a revival in private investments.

According to SBI officials, it has received about Rs 1.5 lakh crore in low-cost deposits in current and savings accounts (CASA). The share of CASA in SBI's total deposits was 42.74% in September 2016, which has now gone up to 45%.

SBI executives said the bank would cut home loan rates tomorrow, while the decision to cut rates on other retail products like vehicles and consumer durables would be based on competition and risk premium. They also said the sops announced by government for affordable housing and cheap credit, are expected to push the demand for housing loans.

Banks are facing a challenge of deploying the large amounts that are lying with them after the scrapping of Rs 500 and Rs 1,000 notes. Bhattacharya said the credit demand remains weak now. This money when invested in market would give a little over 6% returns, while the same money given as loan would fetch more returns.

SBI would also review interest rates on deposits depending on the liquidity conditions, Bhattacharya said.

According to RBI's data, credit expended by 5.8%, on a year-on-year (YoY) basis, till December 9, 2016, down from 10.6% a year ago. The credit offtake has been tepid after November 8, as the note ban has caused a shock in the economy.

In case of deposit flows, the situation is exactly opposite of what happened in credit. Deposits have surged by 15.9% (YoY) till December 9, up from 10.9% a year ago.

## **2. Lakshmi Vilas Bank raises Rs 168 crore via QIP**

The bank is also looking at improving its branch network

Nupur Anand

Private sector lender Lakshmi Vilas Bank has raised Rs 168 crore via qualified institutional placement to increase its capital base. However, the bank has an approval from its board to rise up to Rs 600 crore and so it is likely to raise more capital in the coming months. Apart from shoring up its capital adequacy ratio, the bank which was at only 10.10% at the end of quarter ended September is also looking at raising capital to augment its growth plans.

Centrum Capital was the sole lead manager to the issue. Commenting on the deal, Gaurav Bhandari, MD, Centrum Broking, said "The fund raiser will augment the capital base for the next level of growth for the bank."

The management is aiming for 20-25% growth for the next 10 years and aims to scale up the business nine times higher from the present level. This will be led by strategy shift towards high yielding retail and SME loans, composition for which is set to rise up to 75% from 58 percent currently. The bank is also increasing the share of low-cost CASA deposits up to 25% by 2020 and to over 35% by 2026. At the end of the quarter ended September, the bank's Casa stood at 17.31%.

The bank is also looking at improving its branch network, which is set to cross the 500 mark by the end of this financial year and is expected to touch 750 by 2020. The lender is also looking at bringing down its cost to income ratio to improve its profitability. It is aiming to reduce the cost-income ratio to 45% by 2019-20 from 56% at the end of last financial year.

In this new avatar, the bank is also looking at revamping its backend operations and technology framework. Apart from this, the lender has also created specific businesses to look at specific verticals.

### **3. Insurance firms, banks rush to invest in small finance banks**

At Ujjivan, insurance companies hold 9.75% stake as on September 30, 2016

#### Namrata Acharya

Small finance banks (SFBs) seem to have become the favourite of the season. In a majority of the proposed SFBs, insurance firms have picked up stakes. Banks and mutual funds, too, have been investing in SFBs.

One of the reasons that financial institutions are betting on is the potential synergy in distributing financial products in the rural and semi-urban markets, say experts.

At Ujjivan, which got listed on stock exchanges a few months ago, insurance companies hold 9.75% stake as on September 30, 2016. Insurance companies which picked up stake include HDFC Standard Life Insurance, Bajaj Allianz Life Insurance, Birla Sun Life Insurance, Max Life Insurance and Shriram Life Insurance.

"SFBs can be a potential channel to reach out rural customers. Also, we see it as a good investment opportunity going forward," said the executive of an insurance firm.

At Suryoday Microfinance, which plans to start operations by the middle of January, HDFC Holding and HDFC Life Insurance hold a combined stake a close to four%, said R Baskar Babu, chief executive of Suryoday Micro Finance. The bank plans to start operations with around five branches and scale it up to around 30 by March 2017. IDFC Bank, too, has picked up 4.99% stake in the proposed bank.

"From a strategic point of view, collaboration with banks and insurance companies will be useful in the long term. Majority of our loans, around 50% of our portfolio, has to be less than Rs 25 lakh. For the remaining portfolio, we may not like to write the portfolio in our books. So, bank can be a sourcing partner. As we start, we'll think of other ways of collaborating," said Babu.

"Insurance and mutual fund companies are proactive in investing in small finance banks. There are two reasons: one, from the investment perspective, and second from the point of view of future collaboration in the bankassurance model," added Babu.

Disha Microfin, which will apply for a final banking licence in January 2017, too, is in talks with insurance companies for raising funds.

"We are in the final stages of closing deals for fundraising. Insurance companies are investing in almost all small finance companies. There are synergies in business

requirement. There will be investors from the insurance sector in our bank, too," said Rajeev Yadav, CEO of Disha Microfin.

Varanasi-based Utkarsh Micro Finance has already signed a deal with Ratnakar Bank for close to 10% stake in the proposed bank. This apart, ICICI Prudential will hold a little less than five%, while HDFC Life Insurance and Shriram Life Insurance, too, will hold close to five% stake each in the proposed bank, said Govind Singh, managing director of Utkarsh Micro Finance. This apart, HDFC Ergo will hold a small stake in the proposed bank, he added.

"We have got good response from insurance and banks in our last round of fundraising. As a bank, we can play a bigger role in the financial space compared to MFIs (microfinance institutes).

We can sell a lot of insurance products, too, which is difficult for NBFC MFIs. Also, as a bank, we can have varied business activity and client base," said Singh. Uttkarsh plans to start operations this month.

Financial Express

#### **4. Post-GST tax benefits: Solution a must, otherwise Make in India will die a premature death**

States need to see how they will honour tax sops given

By: The Financial Express

Though GST has been postponed for now, state governments would do well to sit down with firms they have promised tax sops to, in order to invest in their states, and figure out how to honour these promises—indeed, since tax sops are one way of attracting investors, a solution for existing investors will allow extending this to new ones as well. If, say, a Maruti has been given tax incentives to locate in Gujarat, this means the company can sell cars within the state and retain the VAT collected on them; the CST it pays on sales to, say, Karnataka will be refunded to it by Gujarat.

Once GST comes in, Gujarat can still allow Maruti to keep the GST levied in the state, but Karnataka gets to keep the GST on the sales within its boundaries—GST is a destination-based tax. In such a situation, an obvious solution is to extend the period for which the Gujarat GST can be retained by Maruti. Since Maruti also produces cars in Haryana and may want to sell these models in Gujarat, another option is to allow Maruti to retain the GST for these sales as well. This is a good solution for any company that has production facilities in multiple states across the country.

While various automobile firms that have invested thousands of crore rupees in states like Tamil Nadu, Maharashtra and Gujarat are already in discussions with them, the Centre also needs to work on similar solutions. In the case of mobile phones, those importing phones have to pay a countervailing duty while those who assemble them here get an excise benefit. Since this is no longer possible under a GST regime, a solution could revolve around denying input credits to those who import phones while giving them to those who assemble them locally.

Given those who have planned, or are planning mobile phone assembly facilities are naturally jittery, the earlier a solution is arrived at, the better—else, Make-in-India will die a premature death.

#### **5. I-T department scanning data pile to dig out unaccounted income**

By Deepshikha Sikarwar ,

Anyone who has deposited cash or purchased high value items after the November 8 demonetisation not in line with income declared in tax returns may have reason to worry as the authorities sift through tonnes of data generated in the past two months

or so. They are also using data analytics to parse for points of similarity to see if any attempt has been made to split up transactions to avoid suspicion. The income tax department is likely to put such names on its website soon, making it mandatory for them to explain such transactions.

Armed with information on deposits and purchases in the wake of demonetisation, the tax department is pursuing presumed wrongdoing with unprecedented intensity.

"We are working on a new online mechanism whereby names of those whose deposits or transactions do not match will be put up and information be accessed via permanent account number (PAN) of the individual," said a senior Central Board of Direct Taxes official.

Deposits below Rs2.5 lakh could come also under the scanner. Data analytics is being used to look at various parameters such as common addresses or phone numbers or whether these are held by members of the same family to determine the names of individuals who have made deposits not commensurate with their tax profile. Those who find their names on the website will likely have to log in to their income tax account using the PAN or create an account to access the query.

"We have information flowing in from different sources including Financial Intelligence Unit... We will be able to reach everyone," the official said.

Information received from various sources including suspicious transaction reports are being passed on to not just the investigation and intelligence wings but also field formations. These officials are already through with assessments this year and will now be focusing wholly on post-demonetisation data.

The income tax department has carried out 556 surveys and 245 searches between November 9 and December 29. Total currency seizures amount to Rs467 crore, of which new notes were over Rs105 crore. More than 5,000 notices have been issued so far for verification and about 228 cases have been referred to the Central Bureau of Investigation.

## **6. Jan Dhan account deposits double to Rs 87,000 cr, I-T dissects data**

PTI

Deposits in Jan Dhan account have more than doubled to Rs 87,000 crore in 45 days post demonetisation, prompting the tax department to "dissect" information relating to such deposits, a top government official said.

Besides, the tax department also has data on small cash deposits between Rs 30,000-50,000 made in 4.86 lakh accounts totaling to Rs 2,000 crore.

Between November 10-December 23, the total deposits in Jan Dhan accounts reported is Rs 41,523 crore in 48 lakh accounts.

This, together with the total deposits of Rs 45,637 crore as on November 9, takes the aggregate amount in Jan Dhan accounts to over Rs 87,100 crore.

"All these information received on Jan Dhan Accounts are being dissected. If it is found that money deposited in these accounts belong to some other persons, necessary action will be taken at appropriate time," the official told PTI.

Cash deposit between Rs 30,000 and Rs 50,000 have been reported in 4.86 lakh accounts till November 30, taking the total deposits in such quantum to Rs 2,022 crore.

The official further said that inflows of funds into Jan Dhan accounts was the highest in the first week after demonetisation at Rs 20,224 crore, but after that the deposits went down substantially.

"The inflow of funds in Jan Dhan accounts after the first two weeks was below Rs 5,000 crore per week and thereafter it got reduced to about Rs 1,000 crore per week," the official said, adding that the deposits have come down significantly after the tax department warned people not to allow their accounts to be misused for converting black money into white.

Prime Minister Narendra Modi had on November 8 announced junking of old Rs 500 and Rs 1,000 notes, and replaced the currency with new Rs 2,000 and Rs 500 notes.

After setting a cash deposit limit of Rs 50,000 in Jan Dhan accounts, the government had on November 18 cautioned account holders that they will be prosecuted under the I-T Act for allowing misuse of their bank accounts through deposit of black money in Rs 500/1,000 notes during the 50-day window till December 30.

The directive came against the backdrop of reports that some are misusing other persons' bank accounts to convert their black money into new denomination notes.

As per latest data available, Rs 12.10 lakh crore in form of old 500 and 1,000 rupee notes have returned into the banking system till December 12, 2016. It was estimated that now defunct notes constituted 86 per cent or Rs 15.45 lakh crore in circulation.

## **7. Even 53 days later, Punjab villages are cash-starved**

AESHA DATTA

The 50-day deadline, set by Prime Minister Narendra Modi for normalisation of the cash situation after the November 8 demonetisation announcement, has come and gone, but villages in Punjab still feel the pain of the cash crunch.

In the hinterlands, long-winding queues outside banks are still the norm, but with low cash-flows, banks are unable to service the needs of villagers, many of whom have to travel miles to reach their branches.

"We are trying our best to make sure everyone gets some money," says the manager of a major public sector bank, requesting anonymity. "I have 25,000 clients in this branch, but I have only ₹10 lakh in my coffers at any given time. How can I give everyone the ₹24,000-a-week promised by the Centre?"

This branch is the main one in the district, and caters to seven other branches, besides one post office.

The manager told *BusinessLine* that the branch was getting ₹10-25 lakh every 2-3 days, out of which it disburses money to the other smaller branches, some of which get only ₹1-2 lakh a week.

"We try to keep at least ₹10 lakh in this branch and send the rest to smaller branches," the manager said.

"Before demonetisation, we used to have at least ₹50 crore at any given time, of which ₹47 crore was in ₹500 and ₹1,000 notes," the manager added.

In fact, on December 30, over 200 people were waiting in queues for ₹2,000, the maximum amount being disbursed per person on that day. Those in line were given

tokens for the next date on which they can again withdraw from their accounts: January 9.

"Today, we are giving everyone ₹2,000. I have only ₹10 lakh," said the manager.

"If I were to give everyone their weekly limit of ₹24,000 (or ₹50,000 in the case of current accounts), how many people will I be able to serve? And we need to keep some cash for the opening next day," he explained.

A neighboring private bank, however, appears to have almost no rush.

### **'Near-normal' situation**

"We are managing relatively well. In November, there was a lot of crunch, we couldn't meet people's needs. But now, the situation has more or less normalized," said the manager of the private bank.

However, with just 3,000 accounts, this bank's client base is about an eighth of the public sector bank's clientele.

"Most people here have accounts in government banks. Their Jan Dhan accounts are in government banks. We get about ₹10 lakh a week. The government bank also gets about the same amount. That is why they are struggling," the private bank manager said.

## **8. SBI lending rate cut: Depositors will have to brace for cuts too**

### OUR BUREAU

State Bank of India has cut its lending rates by a steep 0.9 per cent. That's good news for borrowers.

But depositors will soon have to brace for a similar steep cut in the interest rates they earn.

The one-year deposit in SBI currently earns 6.90 per cent. With the new lending rates at 8 per cent, the spread between their lending and deposit rate has shrunk from 200 basis points or 2 percentage points to just 110 basis points now.

SBI had cut interest rates on retail deposits by a marginal 15 basis points in mid-November. This was a little over a week after the demonetisation announcement on the night of November 8th. But its bulk deposit rates (deposits of over 1 crore to 10 crore) were brought down more steeply by about 175 basis points as money kept pouring in.

Credit growth in the banking system has been tepid so far. For the system as a whole, loans have grown just by 5.8 per cent over the past year up to December 9, 2016 compared with 10.6 per cent growth in the comparable previous period.

Deposit growth on the other hand has picked up to a level of 15.9 per cent in the one year up to December 9, 2016 compared with 10.9 per cent growth registered in the comparable previous period.

It is clear that banks are flush with funds. A cut in deposit rates looks quite likely in this backdrop.

SBI along with its associates accounts for about a quarter of the country's loans and deposits.

With kind regards,

Yours Comradely,



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