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Dear Comrades,

10th January, 2017

News of Interest 10th Jan

QUOTE OF THE DAY

“THE MORE MAN MEDITATES UPON GOOD THOUGHTS, THE BETTER WILL BE HIS WORLD AND THE WORLD AT LARGE. “

CONFUCIUS

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Business Standard

1. Charges on card deals to stay to keep banks healthy

Incidentally, the payments platforms as of now do not charge a commission on e-wallets

Subhomoy Bhattacharjee

The government on Sunday said charges on cards that had been waived till the end of December cannot be extended further without impacting the health of banks.

“The issue will have to be discussed with the RBI (the Reserve Bank of India), which has asked for time till March 31 to sort it out,” said a source in the government. Till then the charges, known as Merchant Discount Rate or MDR, will remain.

Petrol pump dealers or anyone else who accept a card payment for a sale of goods or services pays a fee known as the MDR. The fee is shared between the bank which issued the card and the bank through whose gateway the payment is made.

It is up to the merchants to decide if they should carry the charge on themselves to attract more footfalls or bill it to the customers. The RBI had in 2012 decided that while credit card holders will continue to pay an MDR of 2 per cent on all transactions, the ecosystem for debit cards needed to be tweaked. It had, accordingly, cut the MDR on debit cards. For transactions till Rs 2,000, the rate was slashed to 0.75 per cent and 1 per cent for transactions above that.

The world of e-commerce changed drastically on November 8. As cash dried up, the government asked for a full waiver of MDR charges — the catch is it is only till December 31. From January 1, as the RBI has advised, MDR on debit cards will return but at a lower fee. For transactions up to Rs 1,000 it is 0.25 per cent of the value of the sale; for up to Rs 2,000 it will be 0.5 per cent. It is up to the banks to decide if they would remain satisfied with the same rates for sales of above Rs 2,000 or revert to 1 per cent as earlier.

The issue was discussed by the finance ministry over the weekend. It has been decided to let the charges continue, as there is no mechanism with the government to defray the cost to them. "It will be like a subsidy if we do so now," the source said.

Incidentally, the payments platforms as of now do not charge a commission on e-wallets. But, as a Paytm advertisement noted, the charges will be free only till the end of January, when its payments bank opens its doors for business. The charges will be zero for business done through the bank, Paytm notes. The implication is for routing money through other banks, there could be costs.

The RBI circular consequently notes it plans to assess these charges; "In the intervening period, the Reserve Bank of India will review the framework for charges for electronic payment transactions, in consultation with the stakeholders."

2. NPA woes to spill over into next fiscal, says Moody's

The report is jointly penned by Moody's and its domestic arm Icra Ratings
Press Trust of India

Weak asset quality will continue to plague credit profile of banks, with their profitability remaining under pressure till the next fiscal, says a report.

"Asset quality will remain a negative driver of the credit profiles of most rated banks in the country and the stock of impaired loans. Non-performing loans and standard restructured loans will still rise during the horizon of our outlook that lasts till the next financial year," Alka Anbarasu, a vice-president and senior analyst at Moody's, said in a report today.

The report is jointly penned by Moody's and its domestic arm Icra Ratings.

The report said the pressure on asset quality largely reflects the system's legacy problems, as relating to the strong credit growth seen in 2009-12, when corporate investments rose significantly.

It, however, said aside from the legacy issues, the underlying asset trend for banks will be stable because of a generally supportive operating environment.

"While corporate balance sheets stay weak, a further deterioration in key credit metrics such as debt/equity and interest coverage ratios has been arrested," the report said.

As per Karthik Srinivasan, a senior vice-president at Icra, "while bank profitability is not expected to be as weak as the levels seen in the financial year 2015-16, the weakness in asset quality will continue to drag on profitability indicators, with return on equity remaining in the single digits for the financial years 2016-17 and 2017-18."

Anbarasu said the pace of asset quality deterioration over the next 12-18 months should be lower than what was seen over the last five years, and especially compared to the financial year 2015-16.

She considers the Reserve Bank's asset quality review in December 2015 as an important catalyst in pushing banks to recognize some large accounts as being impaired.

"We now estimate the 'true' level of impaired loans for Indian banks to be around 1-1.5 percentage points higher than the latest reported numbers," Anbarasu said.

The latest Financial Stability Report by the RBI had said the gross non-performing advances ratio increased to 9.1 per cent from 7.8 per cent between March and September 2016, pushing the overall stressed advances ratio to 12.3 per cent from 11.5 per cent.

Moody's said given the magnitude of stressed assets in the system, it expects the banks to increase their focus on resolving some of the large problem accounts.

"We expect an increased pace of debt restructuring under various schemes offered by RBI, including the scheme for sustainable structuring of stressed assets (S4A), strategic debt restructuring (SDR) and the 5:25 scheme," the report said.

"Nevertheless, weak reserving levels and continued pressure on profitability will limit the ability of the banks to proactively resolve problem assets under these schemes," Anbarasu said.

Icra said a muted level of credit off-take -- on the back of weak demand, increasing competition and greater disintermediation -- will continue to exert downward pressure on lending rates.

It said the overall capitalization levels of most of the public sector banks remain moderate to weak, given that they need to attain the regulatory minimum tier-I requirement of 9.5 per cent by March 2019.

The current plan of infusing Rs 45,000 crore during 2016-17 and 2018-19, of which Rs 16,414 crore have already been infused in the current year, is below Icra's estimate of capital requirements of Rs 1,50,000-1,80,000 crore.

3. For SBI, home loan queries jump three times since rate cut

The bank recently announced a steep 90 bps reduction in its MCLR- based lending rate

Press Trust of India

State Bank of India (SBI) is leaving no stones unturned to kick-start the credit off take, and last week's steep 0.90 bps lending rate cut has resulted in a huge number of enquiries, especially for home loans, a top bank official said here on Saturday.

"Credit growth has been very, very subdued so far. In fact, our loan book has not grown at all after the note ban announcement on November 8. Now, the focus is on

growing the loan book," Rajnish Kumar, managing director in charge of national banking, told reporters.

He said already there is a visible pick-up in loan enquiries, especially for home loans with online queries alone jumping over three-times since the rate cut last Sunday. "Already there is a lot of excitement in the housing loan market since the rate cut announcement, wherein we steeply cut our lending rates. We are seeing lots of interest.

In fact, traffic on our portal has grown by almost three times since the rate cut announcement," Kumar said, adding if the home loan market revives, it will be good for the economy.

Announcing a steep 0.90 bps reduction in its MCLR-based lending rate, bank chairperson Arundhati Bhattacharya had said since demonetisation, the bank saw a contraction in lending and expressed hope that offering the lowest rate in the industry would help it resume lending activities.

It can be noted that system as a whole has seen the worst contraction in credit growth since 1997 in December due to the note ban impact. According to the latest Reserve Bank of India (RBI) data, bank credit grew at the slowest pace in past 19 years in December at 5.1 per cent against 10.6 per cent a year ago.

The RBI data indicate lack of credit demand is across all segments and not just companies, including retail, wherein the only segment where a growth is registered is in auto loans.

Kumar said after demonetisation, the bank has seen over three-and-a-half times rise in debit cards use at merchant terminals and on e-commerce sites. Similarly, the wallets and other methods of payment through mobile have also seen a healthy increase in both in volume and value.

"Last year, we did 100,000 PoS installations. Since the note ban, we have installed as many as 45,000 PoS terminals. Our target is to install 200,000 more this year," Kumar said.

He further said availability of PoS infrastructure is very crucial, as there are about 75 crore cards, of which 45 crore are used very actively on ATMs.

"If the same cards are used actively on PoS machines for doing normal purchases this will reduce pressure on ATMs for cash. Such a shift will be very helpful as cost of doing digital transactions is much lower than the cost of handling cash transactions," he said.

Financial Express

4. Co-op banks used demonetisation as opportunity to launder crores: I-T department

The Income Tax department has raised serious concerns over the working of a number of cooperative banks across the country claiming they used the "opportunity" of demonetisation to make a quick buck and indulge in money laundering worth several crores

By: PTI

The Income Tax department has raised serious concerns over the working of a number of cooperative banks across the country claiming they used the "opportunity" of demonetisation to make a quick buck and indulge in money laundering worth several Crores.

An analysis report prepared by the department that has been accessed by PTI, said tax sleuths found these banks have been involved in generating and routing of black money at an "unprecedented" scale post November 8 when the currency scrap was announced by Prime Minister Narendra Modi.

The report claims that "collusion in such illegal activities took several forms" as it goes on to chronicle the alleged clever and illegal modus operandi adopted by these banks to launder huge monies and criminally indulge in transaction of black money.

The I-T probe found that in the case of such a bank based in the small town of Alwar in Rajasthan, the directors of the bank cheated it of Rs 8 crore "by fraudulently obtaining loans in the names of 90 persons of doubtful identities" even as it was used to launder personal "unaccounted cash" of Rs 2 crore by the management.

"In a case of a co-operative bank at Jaipur, unrecorded cash of Rs 1.5 crore was found secreted in an almirah in the 'clearing house' room of the bank," the analysis report said, adding it was also found by an I-T team that made a surprise visit to the bank that over 2000 new notes of Rs 2,000 were "taken out of the bank illegally".

In a majority of these cases involving cooperative banks, the I-T department said it was found, that the banks used weak KYC documents and the transaction records were recorded, giving a hoot to banking rules and laws as framed by the RBI.

A huge amount of cash was seized by the department from un-allotted and benami lockers in multiple cities, prominently from small cities like Solapur, Pandharpur (in Maharashtra), Surat (Gujarat) and Jaipur in Rajasthan, it said.

In a case which the I-T sleuths said shocked them was when they went for a survey operation at such a bank in Pune and another in Mumbai, only to find that the "excess cash" was more than Rs 100 crore as what was reported by them on paper to the RBI.

A similar case of such a bank in national capital's Daryaganj is being touted as one of the biggest disclosures of black money generation through cooperative banks post demonetisation.

"Demonetisation was used as an opportunity by this bank to make a quick buck through offer of money laundering services," the report said, adding the Chairman and his aides "opened benami and fraudulent accounts to launder cash for beneficiaries".

"More than 1,200 new accounts were opened post demonetisation in the name of third persons or name lenders on the basis of fake IDs and or weak KYC documents. A total of more than Rs 120 crore was deposited in the bank by December 26, most of which were routed to the beneficiaries," it said.

Official sources said while the department has flagged these issues to authorities concerned, it is also speeding up its investigations under I-T laws and to check tax evasion.

"These findings on the modus operandi deployed by these banks to illegally benefit from demonetisation underlines the absence of necessary regulatory framework and this needs to be corrected immediately. A similar modus operandi was found in more or less each case.

"The I-T department has done the needful by informing the agencies concerned and the government," a source said.

Business Line

5. PAC can call PM on cash ban if RBI's reply not satisfactory

PTI

The Public Accounts Committee (PAC) of Parliament can call Prime Minister Narendra Modi on the issue of demonetisation if it is not satisfied with the answers given by top finance ministry officials and the RBI Governor Urjit Patel, to whom a detailed questionnaire has been sent.

A PAC meeting on this issue has been called on January 20, in which the RBI Governor Urjit Patel, Finance Secretary Ashok Lavasa and Economic Affairs Secretary Shaktikanta Das will be present.

"We have not yet received answers for the questions we have sent to them. They will reply few days before the January 20th meeting. Their replies will be discussed in detail," PAC Chairman and senior Congress leader KV Thomas told PTI.

Asked if the PAC would call the Prime Minister if replies were not satisfactory, he said: "The committee has the right to call anybody involved in the matter. But that will depend on the outcome of the January 20th meeting. We can call PM on demonetisation issue if members unanimously decide."

In a meeting with the PM after demonetisation announcement made on November 8, Thomas said, "I had met him and he said that the situation will be normal after 50 days by December—end. But it does not look like it."

So, PAC decided to call the top officials involved in the decision making process this month, he said, adding that the demonetisation has impacted the country's economy.

"The PM is misleading the country to satisfy his ego. He is trying to justify his wrong decisions. He has done in a callous manner by introducing Rs. 2,000 notes," he said.

"In a country where there is a call drop problem and telecom facilities are not smooth, how can PM expect e-transactions would take place on mobiles. Do we have sufficient infrastructure?" he questioned.

Asked what kind of questionnaire has been sent to the RBI chief and top finance ministry officials, Thomas said that the PAC has raised questions on all aspects of demonetisation.

Among key questions sought are, who were involved in the decision—making, how much money has come back into banks after demonetisation, is there a law that can restrict people's access to their money, how much money has been pumped back into the system, if black money issue has been addressed and the impact on the economy and poor.

The PAC, which scrutinises the reports of the Comptroller and Auditor General (CAG), takes suo motu note of the important matters.

6. BoB offers lowest home loans rates at 8.35%

OUR BUREAU

Bank of Baroda has decided to give peer lenders in the housing finance space, such as State Bank of India and HDFC, a run for their money. The public sector lender will

now offer home loans starting from 8.35 per cent, which is its one-year marginal cost of funds-based lending rate (MCLR).

At 8.35 per cent interest for the best-rated borrower, Bank of Baroda's rate is the lowest for home loans among all banks and housing finance companies.

State Bank of India, the country's largest bank, is currently offering floating home loans (of up to ₹75 lakh) at 8.60 per cent to women borrowers and 8.65 per cent to others.

HDFC, India's largest standalone housing finance company, is charging women borrowers (for loans up to ₹75 lakh) interest rate between 8.65 to 9.15 per cent and for other borrowers 8.70-9.20 per cent.

Scoring model

Mayank Mehta, Executive Director, Bank of Baroda, said the bank's loan pricing is based on a scoring model, with the borrower with a higher credit score (800 or more) getting to avail home loan at 8.35 per cent. If the score is lower than this threshold, the bank will add a spread of 50-60 basis points to the one-year MCLR.

"Our interest rate is attractive and we should see a demand pick-up in the housing finance space," said Mehta.

On a home loan of ₹50 lakh, reduction in interest rate by 0.70 per cent by the bank will help a home buyer to save ₹2,496 a month and approximately ₹9 lakh during the loan tenure of 30 years, said the bank in a statement.

The existing home loan borrowers, who have not yet moved to the MCLR rate structure, can avail the benefit of reduced rate of interest rate by converting from Base Rate to MCLR without any additional charges.

With reduction of MCLR rates with effect from January 7, the bank said the rate of interest on car loans and mortgage loans now starts from 8.85 per cent and 10.35 per cent, respectively.

7. SBI waives MDR charges for small merchants for one year

PTI

Country's largest lender SBI has waived Merchant Discount Rate (MDR) on debit card transactions for all small merchants with annual turnover of up to Rs. 20 lakh for one year.

This, SBI said, has been done with a view to helping small merchants overcome apprehensions towards joining the "journey by installation" of PoS terminals in their shops.

"State Bank of India has decided to waive completely, the MDR charges on debit card transactions for all small merchants having annual turnover of up to Rs. 20 lakh, for a period of one year — up to December 31, 2017," it said in a statement.

SBI further said the move is targeted primarily towards a segment of population and small merchants, who have not yet experienced the convenience of Card Payments.

"And, by actively canvassing the smaller merchants, the Bank is trying to live up to its motto of being a 'Banker to every Indian', the state-owned bank said, while affirming its commitment to promoting the government's digital initiative.

To build-up the PoS acceptance infrastructure across the country, especially in areas which hitherto had low digital penetration, SBI has been deploying terminals in smaller towns, semi urban and rural areas since beginning.

Close to 70 per cent of its PoS terminals are deployed in non-metro centres, and these can be found in more than 4,400 centres, SBI said.

"Going digital brings a lot of benefits not only to the country's economy, but also to merchants, in particular, by way of increased customer engagement and analytics, MIS, ease in account-keeping, auditing, and handling of cash," it said.

Small merchants, however, sometimes are not able to realise/perceive the benefits, and consider MDR charges a drain on their profitability, it added.

8. Dena Bank to raise share capital via equities

PTI

State-run Dena Bank today said its board has approved raising of share capital by up to Rs. 360 crore through issue of equity shares.

"The board of directors...has approved raising of share capital (including premium) of the bank up to amount of Rs. 360 crore by issue of equity shares via FPO/rights issue/QIP/preferential/Employee Stock Purchase Scheme etc. at appropriate time," Dena Bank said in a BSE filing.

Shares of Dena Bank were trading 0.15 per cent lower at Rs. 34.25 apiece on BSE.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY