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Dear Comrades,

19th January, 2017

News of Interest 19th Jan

MOTIVATIONAL QUOTES

“YOUR HEAVIEST ARTILLERY WILL BE YOUR WILL TO LIVE. KEEP THOSE BIG GUNS GOING. “

NORMAN COUSINS

- 1. RBI SEEKS CYBER SECURITY EXPERTS**
- 2. IN FIRST ADDRESS, PATEL ASKS STAFF TO GUARD RBI REPUTATION**
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Business Standard

1. RBI seeks cyber security experts

The final date for applying is Feb 7

Anup Roy

The Reserve Bank of India (RBI) is strengthening its information technology (IT) and cyber security cell. It is in the process of hiring specialists for the four divisions of its new unit- cyber security, systems audit, research & innovation, project management and administration.

On Wednesday, it offered the jobs through an advertisement on its website. Reserve Bank Information Technology Pvt Ltd (Re BIT) was set up in May last year as a separate subsidiary of the central bank.

This is the first time a mass hiring drive is being initiated. The final date for applying is February 7.

Headed by Nandakumar Sarvade- a retired officer of the Indian Police Service with expertise on bank frauds and terrorism, Re BIT would take charge of the IT requirements, including cyber security needs, of RBI and the entities it regulates.

The cell was formed close on the heels of international hacker groups siphoning off millions of dollars from the central bank of Bangladesh.

As the country is gradually shifting towards a digital ecosystem, there is a growing concern regarding the banking system facing threat from similar cyber attacks.

According to the advertisement posted on the RBI website, Re BIT is mandated to focus on "IT and cyber security (including related research) of the financial sector and assist in IT systems audit and assessment of RBI-regulated entities; and advise, implement and manage internal or system-wide IT projects (both existing and new) of the Reserve Bank, as mutually decided between the Reserve Bank and Re BIT."

2. In first address, Patel asks staff to guard RBI reputation

A few senior RBI employees were held for money laundering and illegal exchange of banned notes

Press Trust of India

RBI Governor Urjit Patel has told colleagues that any effort to belittle the reputation of the central bank deserves "zero tolerance" and asked them to guard the integrity of the institution.

In his first address to the staff after taking over as the 24th Governor on September 4, 2016, Patel, in an email, said the RBI has achieved the excellence only because of the collective efforts of its employees.

Specifically talking about the withdrawal of Rs 500 and Rs 1,000 notes by the Centre on November 8, he said, "Let me emphasise that one thing we should all zealously guard is the integrity and reputation of our organisation and any act belittling the same should deserve zero tolerance from all of us."

It may be noted that during the demonetisation drive, a few senior RBI employees were held for alleged money laundering and illegal exchange of banned notes. Following this, the CBI had in December arrested a few RBI officials.

Post-note ban announcement, the RBI in general and Patel in particular, were also criticised by Opposition politicians as well as analysts over "abdication" of responsibility by the monetary authority.

Some of Patel's predecessors including D Subbarao, Y V Reddy, Bimal Jalan, and Manmohan Singh, criticised the apex bank for not doing enough to reassure the public in the wake of currency invalidation exercise.

During the 50-day demonetisation period, the RBI faced flak for numerous flip-flops over currency exchange norms.

"I am confident that all of us working together will rise to the occasion and face these challenges in a manner befitting the reputation of this esteemed organisation," Patel said in his email to the employees on the eve of the New Year.

Patel said that during the year gone-by, RBI continued its efforts at restoring macroeconomic stability to the economy.

"While the policy actions have already shown positive effects, nevertheless they are work in progress and need to be fine-tuned constantly to keep pace with the changing environment," he said.

RBI employees union, feeling "deeply humiliated" by the events since demonetisation, on January 13 wrote a letter to Patel protesting against operational mismanagement in the exercise and the government bid to impinge on its autonomy by appointing an official for currency coordination.

In the letter, they claimed this has "dented beyond repair" RBI's autonomy. They said appointment of a senior Finance Ministry official for currency coordination was a "blatant encroachment" on RBI's exclusive turf of currency management.

"An image of efficiency and independence, that RBI assiduously built up over the decades by the strenuous efforts of its staff and judicious policy making, has gone into smithereens in no time. We feel extremely pained," the United Forum of Reserve Bank Officers and Employees had said in the letter.

3. RBI Guv to brief par panel on demonetisation on Wednesday

Meeting will discuss the demonetisation of Indian currency notes and its impact

[Press Trust of India](#) |

RBI Governor Urjit Patel will brief here on Wednesday a parliamentary panel about demonetisation and its impact on the economy and the steps taken by the central bank to deal with the cash crunch.

Besides, representatives of the Finance Ministry, including from the department of Economic Affairs, Financial Services and Revenue will brief the members of the Standing Committee on Finance headed by former Union Minister and senior Congress leader Veerappa Moily.

Also, representatives of Indian Banks Association (IBA), State Bank of India (SBI), Punjab National Bank (PNB) and Oriental Bank of Commerce (OBC) are scheduled to be present in the meeting.

The meeting will discuss the "demonetisation of Indian currency notes of Rs 500 and Rs 1,000 and the impact thereof".

The RBI Governor is also scheduled to appear before the Public Accounts Committee of Parliament on the same issue on January 20.

In a surprise move on November 8, Prime Minister Narendra Modi had announced the demonetisation of old Rs 500 and Rs 1,000 notes.

Following the decision, the RBI had put restrictions on withdrawal of cash from ATMs as well as from banks to deal with shortage of new high denomination currency notes. This led to long queues at ATMs and bank branches.

The cash situation has improved gradually with supply of new Rs 500 and Rs 2,000 notes. Yesterday, the RBI increased the daily withdrawal limit from ATMs to Rs 10,000, though it kept the weekly ceiling at Rs 24,000.

All over the country, the banks had to deal with huge rush of people who thronged their branches to deposit the junked notes. The deadline for depositing old notes with banks ended on December 30.

4. **Are multiple service tax rates in the offing?**

By *Sunil Dhawan*, ECONOMICTIMES.COM

For consumers like us, service tax is omnipresent, well quite literally. From eating-out to travelling to entertainment, almost every expense that one makes has an element of service tax in it.

While Budget 2016 had hiked the service tax by 0.5 per cent to 15 per cent, all eyes will be on Budget 2017 to see if there will be any further increase in it. Or, will the government wait for the Goods and Services Tax (GST) to kick in on July 1, 2017?

It will be interesting to witness whether the Centre raises the service tax rate from the existing 15 per cent by at least one percentage point to 16 per cent as a precursor to the GST rollout. This, however, seems unlikely as there could be multiple rates for the service tax applicable on different services.

For some services, the rate could be set lower at 12 per cent, while for most others it might settle at 18 per cent. Budgets, especially over the last two years, have given the indication that the service tax rate is slowly being increased to bring service tax closer to the expected GST rate of 18 per cent.

The GST Council had already agreed on a four-slab structure as 0, 5, 12, 18 and 28 per cent. The Council has, however, still not announced the schedule of goods and services under each slab rate. It remains to be seen whether all services are to be taxed at standard rate of 18 per cent or few of them will enjoy lower rate.

Will there be multiple service tax rates for consumers?

For the government, GST is planned as a revenue-neutral exercise, which means that the switch over to the new regime should not impact the government's overall tax revenues.

For the consumer, however, there might not be the same scenario. In November 2016, Revenue Secretary Hasmukh Adhia had said that a decision on the services bracket would be taken later, although it would most likely attract the standard rate of 18 per cent. He had, however, added that some services that enjoy higher abatement would be put in the lower tax slabs of 12 or 5 per cent, depending on their current overall tax incidence. The government officials at that time also indicated that "multiple rates had been decided keeping consumer interest in mind".

Service tax over the years

Budget 2016 had proposed to impose a cess, called the Krishi Kalyan Cess, @ 0.5 per cent depending on their current overall tax incidence. The government officials at that time also indicated that "multiple rates had been decided keeping consumer interest in mind".

Service tax over the years

Budget 2016 had proposed to impose a cess, called the Krishi Kalyan Cess, @ 0.5 per cent on all taxable services. The new effective service tax, therefore, is settled at 15%. While presenting Budget 2015, the FM had increased the service tax rate from 12.36 to 14 per cent. This new rate of service tax @ 14 per cent was applicable from June 1, 2015. Moreover, from November 15, 2015, Swachh Bharat Cess @ 0.5 per cent also got applicable. Therefore, the effective rate of service tax is currently at 14.5 per cent with effect from November 15, 2015. Service tax is a tax levied by the government on service providers on certain service transactions, but is actually borne by the customers. It is categorised under indirect tax and came into existence under the Finance Act, 1994.

The proceeds of Krishi Kalyan Cess would be exclusively used for financing initiatives relating to improvement of agriculture and welfare of farmers. The cess will come into force with effect on June 1, 2016. The Krishi Kalyan Cess shall be in addition to any cess or service tax leviable on such taxable services under Chapter V of the Finance Act, 1994, or under any other law for the time being in force.

Impact

Total tax collection in India (direct and indirect), currently stands at Rs 14.6 lakh crore, of which almost 34 per cent comprises indirect taxes, with Rs 2.8 lakh crore coming from excise and Rs 2.1 lakh crore from service tax. With the implementation of the GST, the entire indirect tax system in India (excise, state-level VAT, service tax) is expected to evolve.

According to an EY study, most services are likely to be costlier due to increase in tax rate. However, impact may not be as high as 3 per cent (from current service tax of 15 per cent) if service providers pass on savings due to higher tax credits.

5. Withdrawal cap hike may add to losses of ATM companies

By Mayur Shetty, TNN

The RBI's move to increase ATM withdrawal limits without improvement in cash supply could lead to machines drying up sooner, fear ATM network operators.

Also, lobbying by banks to reduce the number of free transactions to three from five could lead to fewer transactions which will add to ATM operators' losses.

"We were hoping that in the absence of any breakthrough in discussions with banks on the issue of compensation of the costs incurred during the demonetisation period, the cap on ticket sizes would continue. A cap in ticket size results in more aggregate transactions per ATM per month. With the lifting of the caps, there will be an increase in the ticket sizes, and hence a reduction in the number of transactions," said Himanshu Pujara, MD, Euronet Services India - an ATM operator.

He added that losses made by ATM operators range between Rs 330 crore to Rs 380 crore between November 2016 and January 2017. This is now a viability issue for key industry players as their balance sheets are not large enough to absorb losses of this size, the Confederation of ATM Industry (CATMI) has said.

Meanwhile, some banks who are net issuers (whose customers use their cards for withdrawal in other bank's ATMs) have lobbied with RBI to bring down the number of free transactions to three a month. The banks contend that higher frequency of transactions is hurting their balance sheet as they have to pay the ATM owning bank for every transaction.

Business Line

6. Demonetisation has helped us shed bulk deposits, says Dena Bank CMD

R RAMKUMAR

Dena Bank, like all other banks, has had a dream-run on the deposits front during the 50 days following demonetisation. Copious deposit inflows in the form of scrapped high-denomination notes helped the bank shed bulk deposits amounting to about ₹9,000 crore, according to Chairman and Managing Director Ashwani Kumar. On the loans front, however, the picture is not so rosy, with the public sector bank turning cautious in the background of tepid demand. In an interview with *BusinessLine*, Kumar said his bank is pinning its hopes on loan growth to the

retail, agriculture and micro, small and medium segments. Excerpts from the interview:

How much deposits did your bank mop up during the demonetisation period?

Roughly, we have collected about ₹20,500 crore in the form of specified bank notes (SBNs) up to December 30. Of this, withdrawals have been about ₹7,500 crore. So, net accretion is about ₹13,000 crore, mainly in savings bank and current accounts.

So, we got an opportunity to shed whatever bulk deposits we had. Before demonetisation we had bulk deposits amounting to about ₹9,000 crore, but after demonetisation we are left with about ₹900 crore of these deposits. Hence, our deposit growth has not been much.

Current account, savings account (CASA) grew from ₹32,000 crore to ₹45,000 crore during the demonetisation period. CASA increased from 29 per cent of total deposits in December 2015 to 38 per cent in December 2016.

We have had a dream-run on the CASA front. Now, let us see how it stabilises once the government allows full withdrawal. But I don't think there is any pressure as such for withdrawals.

I don't think there will be major outflow now. People may gradually either convert their deposits into term deposits or withdraw the deposits. CASA may drop by 2-3 per cent at the most.

During the demonetisation period, the recovery (in the form of asset upgrade) was about 20-25 per cent higher than in the year-ago period. Those who had SBNs would have paid off the loans. Amount-wise it was not significant, maybe ₹60-70 crore.

In the wake of demonetisation and the government's digital push, what initiatives have your bank taken?

During the 50-day demonetisation period, we enrolled about 4,000 merchants for installing POS terminals and actually installed about 2,000 terminals. By March-end 2017, we will put 10,000 POS machines in place. Wherever possible, we are giving POS terminals for cash disbursements. We did this especially during the demonetisation period at places, such as hospitals and residential societies.

Our pre-paid cards are ready and 30,000 have been supplied to the zones. These reloadable cards are useful for those who are getting salary in cash. We now have mobile banking products such as the Unified Payments Interface (UPI), '99# service', mobile banking, tab banking, etc. Our e-wallet has already been launched in association with Jio.

The only challenge that remains is that we are just switching over from our current system integrator Wipro to HP. This is the first time in the banking industry that such a transition is happening.

Out of 1,509 ATMs, more than 1,400 have been re-calibrated (to dispense the new ₹2,000 and ₹500 bank notes). Pre-demonetisation, our per day per ATM hit was 57-58, but post-demonetisation it has jumped to 110-120.

What steps did your bank take to alleviate the cash crunch facing people during the demonetisation period?

During the initial period of demonetisation some banks were restricting transactions to their own customers. But we did not place any restrictions across India and ensured that as far as possible the ATMs were loaded so that our own customers as well as other bank customers could withdraw money.

This ensured that citizens were not inconvenienced. It was a very good time to gain goodwill. The intention was that people should know Dena Bank as the bank that helped them during the crisis. During the demonetisation period, we loaded 24 ATMs on to trucks and took them to various places to help the public with cash withdrawals. This gesture was appreciated.

What is your position on loan growth?

There was no growth in advances. In fact, year-on-year, our advances shrunk by about ₹3,000 crore to about ₹77,000 crore as at December-end 2016.

Credit growth has not been there mainly because we received repayments from non-banking finance companies (NBFCs) and we have not been aggressive in lending to them in December 2016.

Lending by NBFCs also took a beating during this period as normally their lending is to small borrowers. So, we were not very aggressive in disbursements to them and they were also not very demanding.

On the vehicle loans front, we started a campaign beginning August 10. So far, we disbursed about 11,400 vehicle loans amounting to about ₹330 crore (up to January 9) despite the pressure of demonetisation.

The housing loan campaign we launched from October 1. We have disbursed loans to 1,100 accounts amounting to ₹150 crore.

Our thrust remains on recovery (of bad loans), retail, agriculture, and MSME. In the last two months (rabi season), our disbursements to the agriculture segment, at about ₹440 crore, was okay. Now, MSME loan demand should start picking up as cash is coming into the market and digital outreach is also expanding.

We are not seeing any demand coming in from large corporates right now. One of the reasons is that all 'AAA' and 'AA' rated corporates till now were able to raise funds from the market via commercial papers, bonds, etc.

Slowly, demand is coming for expansion. But I think that it will take one or two quarters more for us to see actual demand once the effect of demonetisation wears off.

There is demand from the roads, solar, and power segments. There is more demand for refinancing than fresh loans.

7. RBI not verifying all withdrawn notes in currency chests

G NAGA SRIDHAR

The demonetisation exercise, which has caused hardship to people for over two months now, is unlikely to provide a clear picture of the fake currency situation in the country.

This is because the ongoing verification process of withdrawn ₹500 and ₹1,000 notes by the RBI is not being conducted in a foolproof manner, according to reliable sources.

“The verification of demonetised notes, which are now being called specified bank notes (SBNs), is being conducted only on a random basis and not entirely,” a source told *BusinessLine*.

During the inspection, only a small number of notes are being checked, leaving almost entire consignments unchecked, both qualitatively and quantitatively.

It is learnt that, on an average, only 30 per cent of the ₹500 notes and 25 per cent of the ₹1,000 notes are being verified to detect fake notes. The process is currently on at 4,075 currency chests across the country.

So far, there has been no authentic data on the old notes returned to banks from November 9 till December 30. According to reports, around ₹14.5 lakh crore of the total recalled notes of ₹15.4 lakh crore had come back.

In a statement on January 5, the RBI said the entries done at the large number of currency chests in the country “need to be reconciled with the physical cash balances to eliminate accounting errors/possible double counts, etc”.

Contradictory approach

But the part-verification process being followed now goes against this objective and the final data on demonetised notes can never be authentic.

In over 50 circulars issued by the RBI since the announcement of demonetisation on November 8, 2016, it always identified elimination of fake currency as one of the objectives of the exercise.

As the general practice is to shred (destroy) old notes after verification, it can never arrive at the number of fake notes that were returned.

In a communication to the top management last week, the RBI staff noted that “the exponential increase of fake currency notes detected in the currency verification system post-demonetisation is alarming.”

So, it remains to be seen how the RBI will be able to arrive at authentic figures on the entire demonetisation exercise once the verification process is completed.

8. Borrowers may switch old loans from base rate to MCLR, says ICRA

OUR BUREAU

With the differential between base rate and marginal cost of funds-based lending rate (MCLR) rising to about 100 basis points (bps), credit rating agency ICRA expects a number of borrowers to switch to MCLR.

All rupee loans sanctioned and credit limits renewed with effect from April 1, 2016, are priced with reference to the MCLR. Prior to April 1, banks gave loans either at the base rate (to best-rated borrowers) or at a mark-up to the base rate.

Currently, MCLR-linked advances are estimated to be 15-20 per cent of the total banking sector advances, with the rest being linked to base rate.

ICRA has observed that deposits have surged and credit growth has declined post-demonetisation. To spur credit demand, banks have undertaken steep cuts in their MCLR in January 2017.

The agency assessed that while the marginal cost of funds for banks has declined post-demonetisation, the decline in their overall cost of funds has been much lower at about 65 bps during January 2015 to September 2016 on account of the time lag in repricing of old deposits.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY