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Dear Comrades,

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News of Interest 24th JULY

MOTIVATIONAL QUOTES

“OPTIMISM IS THE FAITH THAT LEADS TO ACHIEVEMENT. NOTHING CAN BE DONE WITHOUT HOPE AND CONFIDENCE. “HELEN KELLER

HIGHLIGHTS

1. BANK MERGERS TO BENEFIT SECTOR, END DUPLICATION OF RESOURCES: DENA BANK CMD
2. INTERVIEW FOR RBI DEPUTY GOVERNOR'S POST ON JULY 29
3. NPAS CRISIS: RBY DY GOVERNOR VIRAL ACHARYA SAYS CENTRAL BANK PRIORITY IS CLEANING UP BAD LOANS
4. VIEW: MODI GOVERNMENT WILL NEVER PRIVATISE INDIA'S SINKING PUBLIC SECTOR BANKS
5. DESPITE 21% JUMP IN NPAS, EDUCATION LOAN DISBURSALS TOP RS 20,000 CR IN FY17

Business Standard

1. Bank mergers to benefit sector, end duplication of resources: Dena Bank CMD

Centre aims to gradually build up 4-5 PSBs of SBI's size through consolidation

Virendra Singh Rawat

Amid talks of consolidation gaining currency in the Indian banking space, public sector lender Dena Bank's Chairman and Managing Director (CMD) Ashwani Kumar has said the proposed move would bring about several benefits.

Without commenting on whether Dena Bank was also on the block for a merger with a bigger lender, Kumar said that consolidation would curb the duplication of resources in the public sector banking space.

"For example, we currently have instances of branches of multiple banks operating out of a single building and pursuing the same set of clients. Consolidation would check this phenomenon so that their resources could be diverted to other underserved segments," Kumar said.

Consolidation would also benefit banks in their capital requirements and help them better manage non-performing assets (NPAs), he added.

Finance Minister Arun Jaitley has already announced that the Centre is working towards consolidating public sector lenders. This process has gained momentum, especially after the State Bank of India (SBI) merged several of its associate banks with itself, including the Bharatiya Mahila Bank, a few months back.

At present, public sector banks (PSBs) are burdened with bad loans of over Rs 6 lakh crore. The Centre has realised that it is time to resolve the sticky NPA situation for the sector's long-term financial health.

The Centre aims to gradually build up 4-5 PSBs of SBI's size through consolidation. According to reports, four PSBs – Canara Bank, Dena Bank, Syndicate Bank, and Vijaya Bank – have already made presentations about their consolidation road-map before the finance ministry.

Reserve Bank of India (RBI) Governor Urjit Patel has said that the Indian banking space would be more future-ready with fewer, yet healthier lending entities, allowing them to better deal with stressed assets.

There are 21 large and small PSBs in India and the central government is actively working towards bringing this number down to 10-12. However, the government does not want to rush towards consolidation without due diligence.

Meanwhile, Dena Bank has created a 'war room', which is manned by senior bankers, at its headquarters to deal with NPAs, which stood at 16.79 per cent at the end of March 2017.

"This specialised division is mandated with coordinating with regional offices and meeting customers for recovery. This has started to fetch positive results for us," Kumar said.

Dena Bank is also expanding its digital footprint and focusing on the agriculture, MSMEs (medium and small enterprises), and retail segments. It is aggressively organising credit disbursal camps to reach out to new customers.

Currently, the bank operates 85 branches in Uttar Pradesh and plans to expand its network to over 100 branches by March 2018. Last financial year, Dena Bank's total lending in the state stood at about Rs 775 crore.

2. Interview for RBI deputy governor's post on July 29

A few names from the private sector have also been shortlisted, sources said

[Press Trust of India](#)

A search panel headed by the Cabinet Secretary is scheduled to interview candidates on July 29 to find a successor for Reserve Bank of India (RBI) Deputy Governor S S Mundra, who is completing his three-year term this month-end.

The Financial Sector Regulatory Appointment Search Committee (FSRASC) has shortlisted about 10 names who have been called for interview on July 29, sources said. Some of the bankers who have been shortlisted include Canara Bank Managing Director Rakesh Sharma, Andhra Bank Managing Director Suresh N Patel, and Vijaya Bank Managing Director Kishore Sansi.

Besides, former managing directors of Union Bank of India and Oriental Bank of Commerce Arun Tiwari and Animesh Chauhan, respectively, are also in the fray for the position reserved for a banker.

A few names from the private sector have also been shortlisted, sources said.

The central bank has four deputy governors — two from within the ranks and one commercial banker and another an economist to head the monetary policy department.

The members search committee includes RBI Governor, Financial Services Secretary and three independent members.

Independent members of the committee are Rajiv Kumar, senior fellow Centre for Policy Research; Manoj Panda, director, Institute of Economic Growth; and Bimal Patel, director, CEPT.

Financial Express

3. NPAs crisis: RBI Governor Viral Acharya says central bank priority is cleaning up bad loans

The cleaning up of banks' balance sheets remains the top priority for the Reserve Bank of India, its deputy governor Viral Acharya said on Saturday

By: FE Bureau

The cleaning up of banks' balance sheets remains the top priority for the Reserve Bank of India, its deputy governor Viral Acharya said on Saturday. Asked if the cleaning of banks' books takes precedence over rate cut for the central bank, Acharya said: "That (addressing NPAs) is certainly our number one priority." Gross NPAs of banks reached as high as `7.11 lakh crore as of April, with most concentrated in public-sector banks, according to Capintone data. Last month, the RBI decided to refer 12 NPA accounts, which account for 25% of the bad loans in the banking system, for resolution under the Insolvency and Bankruptcy Code (IBC). Speaking at the Delhi Economics Conclave, Acharya said the note ban has changed the perspective of some sections of the society towards black money. "One observation I had about the recent Indian experiment has been that there is something interesting going on in terms of financialisation of savings....this (savings) seems to have had a pretty non-linear shift since November and December," he said.

Economic Times

4. View: Modi government will never privatise India's sinking public sector banks

By Swaminathan A Aiyar

Having established a reputation as an incrementalist who shuns radical change, Prime Minister Narendra Modi has suddenly changed expectations by opting to privatise Air India. This is such a huge public sector giant with so many subsidiaries and lakhs of employees that nobody ever dreamed it could come first in the list of Modi privatisations. Yet that is the case.

Some Americans have asked me whether this might be followed up by the privatisation of public sector banks (PSBs). These too are big in financial size and employment, and some are in almost as bad shape as Air India. If Modi can sell Air India, why not the PSBs?

It won't happen. Public sector banks have always been used by successive governments to implement schemes for which there is insufficient money in the budget. We are now in an era of fiscal stringency, with the Fiscal Responsibility and

Budget Management Act obliging the government to keep cutting its fiscal deficit. In these circumstances, there is less fiscal space than ever for launching new government schemes.

So, public sector banks provide an especially important means for the finance minister to finance schemes that can fetch votes and possibly improve economic outcomes. This is equally true of public sector insurance companies, and oil companies (which for years subsidised diesel and petrol). These will, therefore, not be privatised.

Two years ago, when finance minister Arun Jaitley was visiting the US, he asked what journalists like me meant when we asked for big-bang reforms. For starters, I said, privatise the ten worst public sector banks. He laughed and said this was difficult because the banks played such an important role in the implementation of government policies.

For instance, he said, infrastructure was a top priority, but private banks were not very keen on lending to that sector, and so PSBs had proved invaluable in providing finance for infrastructure.

What he did not say was that private banks had proved very prudent in steering clear of infrastructure projects of dubious viability that carried many risks. When dozens of infrastructure projects sank, for a variety of reasons, the PSBs were left with bad loans totalling lakhs of crores.

Critics like me might say that this is precisely why the banks should be privatised — they will show greater diligence before approving projects with unclear financial profiles. But from the politician's viewpoint, forcing PSBs to lend for infrastructure was an essential way of achieving targets without breaking budgetary limits set by law.

Education loans provide another example. The government is keen on expanding such loans to students, who are increasingly entering high-cost private colleges. So, public sector banks have been instructed to step up education loans.

A recent news item said outstanding education loans had risen from Rs 48,382 crore in March 2013 to Rs 72,336 crore in December 2016, a pretty fast rate of expansion. But non-performing loans — those on which borrowers had defaulted in payment for over 90 days — had shot up in the same period from Rs 2,615 crore to Rs 6,336 crore. The ratio of non-performing to total education loans has risen from 5.40% to 8.76%, a sad tale of sinking viability.

Private sector banks are aware of the high risks in such loans and have mostly steered clear of them. No less than 90% of all educational loans have been given by public sector banks. In some countries, the risk is transferred to the government. In India, PSBs have been loaded with the risk.

A similar tale comes from public sector insurance companies, which have been obliged to launch schemes at unviable low premiums. The government has created a Pradhan Mantri Jeevan Jyoti Bima Yojana — a term life insurance policy.

In 2016-17, the second year of its operation, claims under this scheme exceeded premiums by 21%, making it unsustainable. An even worse outcome afflicted the Pradhan Mantri Suraksha Bima Yojana, which provides payment of Rs 2 lakh for accidental deaths or grievous injuries. In this case, claims were a whopping 70% higher than premiums. By contrast, private insurance companies with similar insurance policies have a claims rate less than half the premiums.

Politicians are reluctant to raise the ultra-low premiums for flagship schemes aimed

at capturing votes. No such instructions on premiums can be given to private insurance companies. That's a key reason why the government insurance companies, like government banks, will not be privatised. They are too politically valuable for governments seeking to distribute freebies and subsidies.

Business Line

5. Despite 21% jump in NPAs, education loan disbursements top Rs 20,000 cr in FY17

PTI

Despite increasing number of students not paying back their loans spiking NPAs to over 10 per cent, lending continues for higher education with the disbursements topping Rs 20,000 crore in fiscal 2017, according to a report.

Banks and other lenders together disbursed around Rs 20,000 crore in education loans in FY17, up from around Rs 17,000 crore a year ago, while total outstanding grew 1.6 per cent to Rs 81,600 crore.

Non-performing assets (NPAs) within the education loan book of the system ballooned 21 per cent in the reporting year, spiking the NPA ratio to 10.2 per cent as of March 2017, said a report by credit information company Crif High Mark.

The state—run banks dominate the space with a 90 per cent market share, both in value and volume, while non—banking lenders target the over Rs 10—lakh segment, which has low asset quality concerns.

Among the states, the NPA situation in Tamil Nadu and Kerala is of "concern", with Chennai, Thiruvananthapuram, Coimbatore, Kancheepuram, Thiruvallur, Tiruchi, Alapuzha, Thanjavur and Erode witnessing higher NPAs, the report said.

It can be noted that virtually all the other segments in retail lending, excluding agriculture — considered resilient and a refuge for banks in face of high NPAs in their corporate loan books — have shown very low NPAs.

Illustrating a jump in the cost of education, the average ticket has now moved up to Rs 6.8 lakh, which has more than doubled from Rs 3.25 lakh five years ago, it said.

A greater 65 per cent of loans are in under the Rs 4-lakh bracket, while 20 per cent are in the Rs 4-10 lakh bracket, said the report.

The top six states for educational loans are Tamil Nadu, Kerala, Maharashtra, Karnataka, Andhra Pradesh and Telangana, according to the report, which also said these states constitute for 66 per cent of the overall book, down from 70 per cent two years ago.

Tamil Nadu alone constitutes for 24 per cent of the over Rs 81,600 crore portfolio, it said.

On a city—wise break—up, higher average ticket sizes of Rs 9—10 lakh are in Hyderabad, Mumbai and Delhi, while Ernakulum, Thane and Vishakapatnam have seen high disbursements in the last six to 12 months.

Generally, ticket sizes have been found to trend higher in the first two quarters of every fiscal, which indicates a higher demand from foreign education aspirants.

It can be noted that the RBI has been highlighting the pitfalls in the student loans and the then Governor Raghuram Rajan had flagged issues in May 2016.

"We have to be careful that student loans are repaid in full by those who have the means, while they are forgiven in part for those who fall on bad times or those who take low-paying public service jobs," he had said.

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With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY