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Dear Comrades,

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News of Interest 25th JULY

MOTIVATIONAL QUOTES

“UNITY IS STRENGTH... WHEN THERE IS TEAMWORK AND COLLABORATION, WONDERFUL THINGS CAN BE ACHIEVED. “MATTIE STEPANEK

HIGHLIGHTS

- 1. MOODY'S DOWNGRADES IOB, CENTRAL BANK**
- 2. HDFC BANK Q1 NET UP 20% AT RS 3,893 CR ON STRONG REVENUE GROWTH**
- 3. DIGITAL TRANSACTIONS IN ALL CO-OPERATIVE BANKS BY MARCH 2018: NPCI**
- 4. BANKS MAY CUT UPI CHARGES FOR MERCHANTS**
- 5. JAITLEY INTRODUCES BILL TO REPLACE NPA ORDINANCE IN LOK SABHA**
- 6. ALLOW HOUSING FINANCE COMPANIES TO ACCEPT DEMAND DEPOSITS FROM LARGE INVESTORS: DEWAN HOUSING CMD**

Business Standard

1. Moody's downgrades IOB, Central Bank

For Axis Bank and ICICI Bank, the agency said it expects the pace of bad loan formation to decline

Abhijit Lele

Global rating agency Moody's has downgraded ratings for two public sector lenders, Indian Overseas Bank and Central Bank of India, Ba3 from Ba1.

It affirmed ratings of nine banks, including Bank of India, Punjab National Bank and Axis Bank, at Baa3/Prime-3. Other banks whose rating was affirmed were Bank of Baroda, Canara Bank, Oriental Bank of Commerce, Syndicate Bank, Union Bank of India and ICICI Bank.

It also downgraded the baseline credit assessments (BCAs) and adjusted BCAs of Axis and ICICI to ba1 from baa3.

"We continue to position the rated public sector banks in the 'very high' government support bucket, reflecting the systemic importance of public sector banks in the country," Moody's said in a report.

For Axis Bank and ICICI Bank, the agency said it expects the pace of bad loan formation to decline materially from the very high levels seen in fiscal 2017 but to still remain elevated.

"Both banks remain exposed to weak corporate that have not yet been classified as NPLs, thus representing a potential source of asset quality stress," the report said.

2. HDFC Bank Q1 net up 20% at Rs 3,893 cr on strong revenue growth

Asset quality of the bank saw a slight deterioration as gross NPA stood at 1.24%

Nikhil Hetavkar

HDFC Bank saw a rise of 20 per cent in profit in the first quarter, backed by a rise in revenue and a reduction in cost-to-income ratio.

The private sector lender's net profit rose 20 per cent to Rs 3,893 crore in the quarter ended June from Rs 3,239 crore in the year-ago quarter.

Analysts say that HDFC Bank's performance exceeded expectations on most operating performances. This was despite the marginal impact on asset quality due to the spate of farm-loan waiver demands across the country.

Net interest income, the difference between interest earned and interest expended, was Rs 9,370 crore in the June quarter, 20 per cent more than Rs 7,781 crore in the year-ago period. Other income, mainly fees and commission, grew 25 per cent to Rs 3,517 crore in June from Rs 2,806 crore previously. Net interest margin, a key indicator of the bank's stability, was 4.4 per cent for the June quarter.

Its advances rose 23 per cent to Rs 5,80,975 crore and deposits were up by 17 per cent to Rs 6,71,376 crore.

The asset quality of the bank saw a deterioration as gross non-performing assets stood at 1.24 per cent as of June 2017, against 1.04 per cent as of June 2016.

The agricultural segment formed 60 per cent of the total increase in gross NPAs. "Recoveries from agricultural advances were impacted during the quarter by borrower expectations of farm loan waivers arising out of policy announcements in certain states. These loan waiver policies are in the process of being finalised and implemented. As a prudent measure, the bank has enhanced specific provision coverage for its non-performing agricultural advances," said the bank.

The private lender's capital adequacy ratio (CAR) was at 15.6 per cent as of June 2017 against 15.5 per cent in the previous year's quarter. Tier-I CAR was at 13.6 per cent as of June 2017, against 13.3 per cent earlier.

Financial Express

3. Digital transactions in all co-operative banks by March 2018: NPCI

The National Payments Corporation of India (NPCI) on Monday said all co-operative banks in the country would be part of digital transactions by March 2018

By: IANS

The National Payments Corporation of India (NPCI) on Monday said all co-operative banks in the country would be part of digital transactions by March 2018. "The Unified Payments Interface (UPI) ecosystem now covers all public sector undertakings and major private banks. We are in the process of extending the service for co-operative bank. All co-operative banks, which computerised their operation, would be part of digital transactions," said NPCI Managing Director and CEO A.P. Hota. UPI is currently offered by 56 banks in the country. He said technology companies such as Google Inc, Facebook Inc. and WhatsApp Inc. are in talks with the NPCI to launch UPI-enabled payment on their platforms and this would significantly boost digital payments in the country.

Hota said Google has requested the Reserve Bank of India to consider the firm's application to integrate its digital payment service, Android Pay, with UPI. With the Union government targeting Rs 25 billion digital transactions this financial year, Hota admitted that NPCI has missed the target set for the first quarter. "We have targeted 4 billion transactions in the first quarter but achieved 3.4 billion transactions. But we are trying to achieve the shortfall in the current quarter," he said. Out of the 25 billion transaction target, NPCI is eyeing to achieve 10 billion transactions in the first half and the remaining 15 billion in the second half of the financial year.

"We are focusing on bill payment system, transit system and e-tolling at toll gates on national highways to increase the digital payment transactions in the country," Hota added. Meanwhile, Bharat Interface for Money (BHIM) App has crossed 16 million downloads and four million active customer base by end of June 2017. BHIM App is a common platform across the nation for making simple, easy and quick payments. "Transactions via BHIM App is witnessing growth with each passing month since its launch by Prime Minister Narendra Modi on December 30, 2016. Download numbers breaching 16 million mark is a remarkable achievement towards digital transactions and creating a less-cash society," he said. Currently, the 1.3 version of the app is available on Google Play Store and Apple's App Store. Soon a new update (Version 1.4) of the app will be launched.

Economic Times

4. Banks may cut UPI charges for merchants

By Mayur Shetty

In a boost for the Unified Payments Interface (UPI), the government will push for a drop in this account-to-account platform's charges for merchants in the low-value segment. The government has also extended benefits under the referral scheme for the Bhim app to proprietary UPI apps of banks. Besides, banks have been allowed to use the Bhim brand for their own UPI apps to increase usage.

"The government has liberalised the Bhim referral programme to include all UPI referrals. We have also recommended that incentives to individuals for referrals be hiked from Rs 10 to Rs 25," said A P Hota, MD & CEO, NPCI. The referral programme, announced in the Union Budget for 2017-18, provides incentives to anyone who can get another individual to activate a UPI ID.

Peer-to-peer (P2P) transfers under UPI are currently free but businesses are charged for receiving payments via this mobile-based system. SBI and HDFC BankBSE 1.83 % had proposed to introduce charges on peer-to-peer UPI transactions as well, with effect from June. HDFC Bank had announced a charge of Rs 3 and Rs 5 on transactions of up to Rs 25,000 and higher value remittances, respectively. However, the NPCI asked banks to refrain from imposing charges until an industry-level decision is taken. ..

In merchant transactions, the shopkeeper pays 0.25% on payments of up to Rs 1,000 and 0.65% on transactions above Rs 1,000. Since UPI merchant charges are

higher than debit cards in some segments, these are likely to be brought down. Also, SBI's decision to waive account-to-account transfer (IMPS, or Immediate Payment Service) charges on transfers of up to Rs 1,000 is seen as an indicator that low-value P2P transactions may be kept free.

Under UPI, consumers make or request payments using the counter-party's UPI ID — an email-like identification which replaces the need for knowing bank account details. The ID is generated by downloading a UPI app from any bank and linking the customer's bank account.

The most popular of the UPI apps is Bhim, launched by the NPCI and aggressively promoted by the government. This has resulted in Bhim becoming almost synonymous with UPI. Now the government has allowed banks to tag the Bhim brand with their own apps. Axis has already rechristened its UPI app to Bhim Axis Pay.

According to Hota, there will soon be a massive campaign on digital payments. The campaign will take off once there is a significant number of shops accepting digital payments using the Bharat QR code. Bharat QR enables shops to accept electronic payments from cards or UPI with the customer scanning the QR.

"We expect to end the month with close to 1.4 crore transactions. Merchant transactions, which used to be 10% of UPI, are now more than 20%. Flipkart is already on board and Amazon is at the final stage. IRCTC is already accepting payments through UPI and Uber will launch very soon," said Hota.

The other change is a drop in transaction charges that merchants have to pay. At present, UPI is more expensive compared to debit cards in low-value transactions. "We are working out lower IMPS Bhim charges for lower amounts. Once the RBI comes out with its new merchant discount rates for cards, we will come out with the new MDR (merchant discount rate) on UPI," said Hota. He added that new charges would be lower than the 0.65% currently charged.

5. Jaitley introduces Bill to replace NPA ordinance in Lok Sabha

OUR BUREAU

Finance Minister Arun Jaitley on Monday introduced a Bill in the Lok Sabha to replace the NPA ordinance promulgated on May 7 this year.

The Banking Regulation (Amendment) Bill 2017 will amend the Banking Regulation Act 1949 for this purpose.

The NPA ordinance, which had amended the Banking Regulation Act, was promulgated as Parliament was not in session and immediate action was required to address the unacceptably high levels of stressed assets in the banking system.

The Constitution requires ordinances to be approved by Parliament within six weeks of the next session. The Monsoon session of Parliament commenced on July 17.

It may be recalled that the NPA ordinance had conferred powers on the Centre for authorising the Reserve Bank of India to issue directions to banks to initiate insolvency resolution process in respect of a default, under the Insolvency and Bankruptcy Code 2016.

It had also conferred power upon the RBI to issue directions to banking companies for resolution of stressed assets and allow it to specify one or more committees to advise banking companies on resolution of stressed assets.

Waterways

Meanwhile, P Radhakrishnan, Minister of State for Road Transport and Highways, on Monday introduced a Bill in the Lok Sabha for the development and maintenance of national waterways.

The Central Road Fund (amendment) Bill 2017 seeks to levy a cess of 2.5 per cent on high-speed diesel and petrol.

This would accelerate the development of national waterways by utilising the fund generated by way of cess, according to the State of Objects and Reasons.

The Bill also seeks to offer incentives and certainty for the private sector to invest in inland waterways transport sector.

6. Allow housing finance companies to accept demand deposits from large investors: Dewan Housing CMD

K RAM KUMAR

To enable housing finance companies compete more effectively with banks on the interest rate front, they should be allowed to access demand deposits from large investors such as companies and high net worth individuals, according to Kapil Wadhawan, Chairman and Managing Director, Dewan Housing Finance Corporation.

Housing finance companies (HFCs) have a long-standing track record of servicing retail term deposits of over one year. So, there is no reason why they will not be able to service demand (savings/current account) deposits of large investors, he said.

Wadhawan observed that building societies in the UK not only provide home loans but also take savings deposits.

Housing finance industry experts are of the opinion that if the regulators (Reserve Bank of India and National Housing Bank) allow HFCs to take demand deposits from large investors, there may not be a need to tweak the extant guidelines for maintaining the statutory liquidity ratio (SLR).

SLR is the portion of public deposits that an HFC has to necessarily invest in government securities. Currently, the SLR requirement for HFCs is 12.50 per cent of the public deposits. For banks, the SLR is at 20 per cent of their net demand and time deposits.

The demand for being allowed to tap demand deposits comes in the context of the cost of funds of HFCs being much higher than that of banks. For example, as of March-end 2017, DHFL's cost of funds was 8.83 per cent while for State Bank of India it was 5.88 per cent.

HFCs' fund sources include line of credit from banks and financial institutions, capital market instruments (non-convertible debentures, private placement of subordinated debt and perpetual debt instrument, and commercial paper), fixed deposits (of over one year duration), re-finance from National Housing Bank and External Commercial Borrowings. The DHFL honcho said: "You look at a co-operative bank's asset class and you look at our asset class. There is a stark difference (when it comes to non-performing assets)."

So, when co-operative banks are allowed to accept deposits, then HFCs too should be allowed to mop up savings deposits, albeit from large investors, he added.

Not easy to build

To a query whether DHFL will consider applying for a banking licence, Wadhawan said: "I think we are pretty comfortable with what we are doing currently. We do accept deposits. It is not easy to build a bank from scratch. It takes time.

In banking, he said there is strong regulatory direction on the kind of assets an entity can create and garnering deposits/ savings etc from the market is not easy. "It is not easy to build that (banking) franchise. And more importantly you have to have a brand. So, I think, we as a housing finance company are today at the forefront of providing value-adds to our customers even without being a bank," he said.

"We do offer SME (small and medium enterprise) loans. We do offer housing loans. And these are at as competitive rates as you can get in the marketplace, from even the banking system. So, we believe that this (housing finance) is a focused business and it is important to stay focused. We are building our book in the process.... So, yes, at the opportune time we will approach the RBI with our request (for a bank licence)."

Wadhawan said by the end of the current financial year, DHFL would cross ₹1 lakh crore of assets under management, which as of June-end 2017 stood at ₹88,236 crore.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY