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**Dear Comrades,**

**4th May , 2017**

### **News of Interest 4th MAY**

#### **MOTIVATIONAL QUOTES**

***“EDUCATION IS NOT THE FILLING OF A PAIL, BUT THE LIGHTING OF A FIRE. “***  
**WILLIAM BUTLER YEATS**

#### **HIGHLIGHTS**

- 1. CABINET APPROVES NEW NPA POLICY TO DEAL WITH STRESSED ASSETS**
- 2. DESPITE AUTOMATION, BANKING TO SEE BIG RISE IN HIRING**
- 3. ICICI BANK Q4 NET SOARS ALMOST THREE-FOLD TO RS 2,024 CR**
- 4. UNION BANK RAISES RS 500 CRORE TO BOOST CORE CAPITAL**
- 5. RBI TO HOLD KEY RATE NEXT MONTH; 25 BPS CUT LIKELY IN AUG: REPORT**
- 6. 1.52 LAKH CASUAL, 45,000 PART-TIME JOBS LOST POST-DEMONETISATION**

Business Standard

#### **1. Cabinet approves new NPA policy to deal with stressed assets**

Centre to handover three ITDC hotels to state governments; steel policy gets nod

Arup Roychoudhury

The Union Cabinet, led by Prime Minister Narendra Modi, on Wednesday approved a new framework for dealing with Rs 6 lakh crore worth of non-performing assets (NPAs) in the banking system.

The framework includes the promulgation of an Ordinance to amend the Banking Regulation Act to give more teeth to the Reserve Bank of India (RBI) and its oversight committees to act on behalf of banks while deciding on NPAs. The proposals are now awaiting the President's assent.

“We have taken some decisions regarding the banking sector. There are some modifications for which the President's assent is required,” Finance Minister Arun Jaitley said at a post-cabinet press briefing. “There is a convention that when some

proposal is referred to the President, then details of it cannot be disclosed till it is approved. As soon as approval comes, details will be shared," he added.

The Cabinet also approved a National Steel Policy that aims to give preference to domestically manufactured iron and steel products for government's infrastructure projects, a move that would boost the sales of debt-laden companies.

It also decided to hand over three ITDC Hotels located in Madhya Pradesh, Assam, and Rajasthan to the respective state governments after the Centre gives up its stake in them. The properties will be redeveloped and used in accordance with the state governments' requirements.

In the case of Bhopal and Guwahati, the India Tourism Development Corporation (ITDC) will be divesting its share of 51 per cent in the joint venture company formed for operating the hotels. The Bharatpur hotel, which the corporation is only managing, will be returned to the state government.

On the decisions regarding NPAs, a top government official said the Banking Regulation Act would be amended through an Ordinance, which was why the framework had been sent to the President.

Sources told Business Standard that the amendments could give the RBI an explicit mandate to intervene on behalf of state-owned banks when deciding on how to deal with NPAs.

Analysts say that while nothing prevents the banking regulator from intervening and approving decisions regarding NPAs by banks, there is no enabling provision.

The Ordinance will set in motion a process under which the RBI and its oversight committees will have a greater say in how toxic assets are dealt with. The framework also envisages amendments to the Prevention of Corruption Act (PCA). The PCA amendments will allow commercially viable decisions by banks which are later not scrutinised by probe agencies. Both the amendments are possible in the monsoon session of Parliament, *Business Standard* has learnt.

The new framework envisages setting up multiple oversight committees under the aegis of the RBI to monitor progress of the top 35-40 NPAs in value terms, which constitute 60 per cent of all NPAs. These committees could get an enhanced mandate to help the lenders with their decision-making, including overseeing of joint lenders forums (JLFs), a consortium of bankers dealing with a particular project. They may also be able to decide on matters such as which bank will take how much 'haircut' and to intervene if the JLF reaches a deadlock, said an official.

The framework will also enable a JLF to deal more effectively with NPAs by possibly tweaking the current guidelines and reduce the threshold in terms of exposure as well as the number of banks within a JLF for taking a decision on NPAs.

According to current rules, decisions regarding a bad loan or toxic assets are binding on all lenders in a JLF, if they are approved by 75 per cent in terms of exposure or 60 per cent in terms of absolute numbers. However, these thresholds are being seen as too high and hence there could be a change in regulations to enable JLFs to decide on NPAs based on a simple majority.

Banks which are a part of a consortium face problems due to disagreements among them on projects gone bad. To address that issue, the Centre is expected to bring an enabling provision under which, once a simple majority of the banks, based on their exposure to the bad loan, takes a decision, it will be binding on other banks who are part of the group. The new exposure level to be set is likely to be lower than the current 75 per cent. The Cabinet also cleared a new pension package for armed services. Soldiers, sailors and airmen of the three defence services will hereafter be

paid salaries recommended by the 7th Central Pay Commission (7th CPC). The new scales will be paid with effect from January 1, 2016.

## **2. Despite automation, banking to see big rise in hiring**

Every year, around 12,000-15,000 people are recruited in PSBs in both clerical and officer positions

Anup Roy

The financial services industry, more specifically banking, is expected to see a substantial rise in jobs in the next few years even as automation encroaches on most of its core activities.

Automation, chat bots and big data analytics programmes might take a toll on the sector in the next decade or so. But now, digital technology, together with physical labour, is scaling new heights in the banking sector.

With financial exclusion being as high as 55-60 per cent of adult population, notwithstanding Prime Minister's Jan Dhan push, banks will continue to hire — a number of well-trained people armed with cutting-edge digital technology but reaching out to harvest customers who can't make use of these services on their own. HR managers are bullish on the industry.

"Banking is the new IT industry in terms of employment generation," says Ajay Shah, head of recruitment services at Teamlease, a manpower firm. According to Shah, incremental hiring in private sector banks would increase 10-11 per cent in the next 12 months. HR does not count public sector banks, as these do not follow a linear recruitment path. Moreover, these banks are either overstaffed or understaffed.

Between 2010 and 2013, the government recruited 85,000 people in public sector banks. Every year, on an average, 12,000-15,000 people are recruited in public sector banks in both clerical and officer positions. The employment ratio is 1:1, which means for every one clerical position, there has to be one officer in the bank. In 2016, public sector banks recruited about 9,000 probationary officers and about an equal number of clerks, according to the Institute of Banking Personnel Selection (IBPS), the agency that conducts common admission tests for such banks.

According to the Reserve Bank of India (RBI) data, as on March 31, 2016, the banking industry had 1.26 million employees. The private sector banks employed about 300,075 people, foreign banks had 25,214 and nationalised banks, including the State Bank group, had about 860,000 people. These numbers have increased in 2016-17. HR managers expect a good rise in 2017-18 as well. Also, the banking industry is expected to grow at over 20 per cent for the next two-three years.

Retail banking will be the key growth driver for banks, along with corporate credit, SME banking, cross-selling of other financial products and services like insurance, mutual funds, fee-based sources of income and technological upgrade, according to the Institute of Finance Banking and Insurance, a manpower training agency for the financial sector. Experts maintain that the stress would be on expansion of branches and financial inclusion.

### **The new normal**

Even as HDFC Bank reduced its manpower by more than 10,000 in the last six months, HR managers and bankers take it as the new normal.

HDFC Bank's Deputy Managing Director Paresh Sukthankar said the bank had decided not to replace those staff, as the lender witnessed a good traction in its digital transactions and therefore needed fewer people. HR experts said HDFC Bank could be an outlier. Most other banks are bullish on hiring. "If you look at any mid-

sized private sector bank, the outlook for hiring is extremely positive for the next one year. Ten small banks and 78 fintech companies are on a hiring spree," Shah said.

A few banking service providers, such as payments bank licence holder PayTM, have ambitious plans in terms of hiring and business expansion as they start banking operations.

The digital push has helped banks to expand business and penetrate rural areas, bankers said. Some lenders, such as IDFC Bank, have been hiring people to tap customers who still cannot use technology on their own. "Technology is very important but not in the way many people imagine," said Rajiv Lall, head of IDFC Bank. "Having a smart-app is not going to help me tap customers who don't have a smartphone," he added. Instead, the bank is hiring 3,000 as direct employees and a similar number by acquiring a microfinance firm in South India. Another entrant, Bandhan Bank, plans to ramp up its headcount to 30,000 in this financial year from 24,000 (including microfinance workers), Managing Director and CEO Chandra Shekhar Ghose said.

### **Shape of things to come**

Getting an opportunity to interact with humans would be preserve of a few, says Stuart Milne, head of HSBC India.

"If I see banking technology of future, it's likely a few wealthy customers will have access to a relationship manager, but most of us won't. It will be a robot, algorithms in most way. Does it mean that it will be less good? I don't think so. I think it's actually better," said Milne.

Milne has a time horizon of 100 years in mind. That is some time away. For now, the banking industry would continue to absorb people as it reaches out to new clients waiting to get financially included.

### **3. ICICI Bank Q4 net soars almost three-fold to Rs 2,024 cr**

Gross NPAs at 7.89% vs 7.2% q-o-q; will issue one bonus share for every 10

Hamsini Karthik & Anup Roy

The country's largest private sector lender, ICICI Bank, on Wednesday reported a 189 per cent year-on-year rise in its March quarter (Q4) standalone net profit, even as loan quality worsened.

Net profit for the quarter was at Rs 2,024.64 crore, against Rs 701.89 crore in the year-ago period, but lower than *Bloomberg* consensus estimate of Rs 2,143 crore. Gross bad loans as a percentage of advances were at 7.89 per cent, against 5.21 per cent in the year-ago period. In the third quarter ended December 2016, the bank's gross non-performing asset (GNPA) ratio was 7.20 per cent.

Gross NPA ratio of 7.89 per cent is higher than that of Axis Bank, which had the figure at 5.04 per cent in Q4.

In the quarter, ICICI Bank classified Rs 5,378 crore as NPA towards a cement company. While the bank did not name the company, analysts say it is JP Associates, which was already classified as NPA in the third quarter by some public sector banks. Apart from this particular NPA, the bank had an addition of another Rs 5,911 crore of bad debt in the quarter.

Therefore, the overall slippage (loans that turned bad or defaulted) in the quarter was at Rs 11,289 crore, compared with Rs 7,037 crore in the third quarter. Suresh Ganapathy, analyst with of Macquarie Capital was concerned about the high slippages in the bank.

"This is not a good sign yet for the bank," he said.

However, ICICI Bank's managing director and CEO Chanda Kochhar assured that the bad loans situation was under control.

"Additions to NPA in FY18 should be lower than FY17. We expect upgrades from NPA to happen and slippages should also be significantly lower. We are seeing good interest collection from NPAs at the moment," Kochhar said.

The bank wrote off Rs 5,386 crore of NPAs in the fourth quarter, compared with Rs 788 crore in the third quarter. Recovery and upgradation of loans in the fourth quarter was at Rs 1,400 crore. In the quarter, the bank sold Rs 3,286 crore of its bad debt to asset reconstruction companies. In the third quarter, it had sold Rs 2,811 crore of assets to ARCs.

At a call with reporters to discuss the bank's results, Kochhar did not want to disclose the nature of the write-off, but said it was a mix of assets, consistent with the bank's write-off policy. Write off in the year ago quarter was at only Rs 148 crore. The bank used up Rs 1,528 crore, the remaining part of its contingency reserve of Rs 3,600 crore created last year, towards providing for bad loans.

Total provision towards bad loans (other than for tax and contingencies) was at Rs 2,898.22 crore against Rs 3,326.21 crore in the year ago period and Rs 2712.70 crore in the third quarter.

As a result, the provision coverage ratio of the bank fell to 53.6 per cent from 61 per cent last year even as capital adequacy ratio rose 17.39 per cent from 16.64 per cent in the year ago period.

Post provision, recovery and write off, net NPA ratio was at 4.89 per cent of total loans, from 2.67 per cent in the year ago quarter and 3.96 per cent in the December 2016 quarter.

The results were declared after market hours by which time the bank's stocks had closed 1.1 per cent lower at Rs 272 per share on Bombay Stock Exchange (BSE). While the numbers, especially the asset quality, don't look good analysts say that future commentary on formation of NPAs and slippages are positive.

The bank's board recommended pre-bonus dividend of Rs 2.5 per share for 2016-17 and one bonus share for every Rs 10 paid-up share held.

The net interest income (NII) for the reporting quarter rose by 10.32 per cent to Rs 5,962 crore from Rs 5,404 crore in Q4 of 2015-16. Net interest margin of the bank was at 3.57 per cent for the fourth quarter, compared with 3.37 per cent in the year ago quarter.

Share of low-cost current and savings account (CASA) in the total deposit was a healthy 50.4 per cent at the end of March, the highest level in at least last four years. Proportion of retail loans to the overall loan book grew to 51.8 per cent, the highest ever.

Kochhar guided that the bank will continue to grow its credit book at 15-16 per cent, while the retail segment will see growth of 18-20 per cent.

The other income comprising fees, commissions and revenues from treasury stood at Rs 3,017 crore in Q4 FY17, down from Rs 5,108 crore in Q4 FY16.

Financial Express

#### **4. Union Bank raises Rs 500 crore to boost core capital**

Public lender Union Bank has raised Rs 500 crore by issuing Basel III compliant bonds, a step that will add to its core tier-I capital

By: PTI

Public lender Union Bank has raised Rs 500 crore by issuing Basel III compliant bonds, a step that will add to its core tier-I capital. Union Bank said it has issued 5,000 non-convertible, unsecured subordinated Basel III compliant perpetual bonds today to be included as additional tier-1 capital.

"The bond is issued for face value of Rs 10 lakh each at par aggregating Rs 500 crore on private placement basis," it said in a regulatory filing. Perpetual bonds are treated as equity than debt and so, they do not carry any maturity date.

The bonds will carry a coupon rate of 9.08 per cent payable annually. The Mumbai-headquartered Union Bank's board of directors had approved the capital plan for 2017-18 on April 28. It had announced raising up to Rs 6,350 crore this fiscal in the form of core equity capital and/or additional tier I or tier II bonds for the current fiscal.

Besides, the lender has planned to raise up to Rs 4,950 crore through follow-on public offer, rights and private issue, including qualified institutional placement or preferential allotment to the government. The stock closed 4.75 per cent up at Rs 178.60 on the BSE.

Business Line

## **5. RBI to hold key rate next month; 25 bps cut likely in Aug: Report**

PTI

The Reserve Bank is expected to hold the key rate at its monetary policy review next month but may opt for a 25 bps cut in August, says a Bank of America Merrill Lynch (BofAML) report.

The global brokerage cited three reasons for the central bank to cut rates in August. First, growth remains weak, second, inflation remains within RBI's 2-6 per cent range and a rate cut would help RBI recoup forex reserves.

"As it has just hardened its stance, the RBI will likely wait for transfer of the 'special' dividend to the fiscal from demonetisation and good rains before cutting in August," BofAML said in a research note.

It noted that GDP growth based on old series is running at 4.5-5 per cent, well below its estimated 7 per cent potential.

Inflation, it said, would average 4 per cent in the first half of 2017.

A rate cut, it added, would help attract foreign portfolio investors (FPI) in equity flows by supporting growth.

"We continue to expect the RBI monetary policy committee to pause on June 6 and cut rates by 25 bps in August," it said.

The Reserve Bank in its monetary policy review meet on April 6 kept the repurchase or repo rate — at which it lends to banks — unchanged at 6.25 per cent but increased reverse repo rate to 6 per cent from 5.75 per cent.

On rupee, the report said although the domestic currency has strengthened to the 64/USD level, going forward seasonality will turn against it and it might depreciate to some extent.

"While INR has strengthened to Rs 64/USD, seasonality will turn against it in coming weeks. Our Asia forex strategists see Rs 66.75/USD by December," it noted.

## **6. 1.52 lakh casual, 45,000 part-time jobs lost post-demonetisation**

OUR BUREAU

As many as 1.52 lakh casual and 46,000 part-time jobs were lost during October 2016 to January 2017. This is in spite of eight key sectors of the economy adding 1.22 lakh workers during the quarter, against 32,000 in the previous quarter, according to the Labour Bureau.

The Quarterly Employment Survey (fourth series), which includes the demonetisation period, saw the maximum decrease of casual jobs in manufacturing (1.13 lakh) and IT/BPO (20,000). The loss of part-time work was also highest in manufacturing.

Overall, there were positive changes in manufacturing (83,000), trade (7,000), transport (1,000), IT/BPO sector (12,000), education (18,000) and health (2,000), according to the survey, for which field work for data collection was done during January-March 2017.

"However, the construction sector experienced a negative change (1,000) in estimated employment over last quarter," said the report, adding that there was no change in the accommodation and restaurant sector.

Out of the overall increase in the number of employees in the quarter, regular workers accounted for 1.39 lakh, and contract workers, 1.24 lakh.

In a positive development, 97.66 per cent of the surveyed establishments said they maintained a record of employment, with IT/BPO and health sectors reporting 100 per cent records.

Job generation continues to be a key challenge for the Narendra Modi government that won with a poll promise to generate 2.5 crore jobs a year. At present, an estimated 1.2 crore persons join the labour force every year in India.

With kind regards,

Yours Comradely,



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