



ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION
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Dear Comrades,

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News of Interest 21st NOV

MOTIVATIONAL QUOTES

“THE SINGLE BIGGEST PROBLEM IN COMMUNICATION IS THE ILLUSION THAT IT HAS TAKEN PLACE.” GEORGE BERNARD SHAW

HIGHLIGHTS

- 1. HIGH PROVISIONING, NPA HIT SFBS PROFITABILITY**
- 2. LOWER INTEREST RATES FOR BORROWERS IN OFFING? READ WHERE THINGS STAND**
- 3. SBI TO USE BLOCK CHAIN FOR SMART CONTRACTS AND KYC BY NEXT MONTH**
- 4. ‘CATHOLIC SYRIAN BANK MOVING TO A MORE STABLE AND SUSTAINABLE EARNINGS BASE’**
- 5. RUPEE STRUGGLES TO SUSTAIN AT HIGHER LEVELS**

Business Standard

1. High provisioning, NPA hit SFBs profitability

Many had to keep aside a substantially large amount of money as provisions due to non-recovery of loans

Namrata Acharya

Newly-opened small finance banks (SFB) had a rough start, as many of them saw a decline in profitability and losses in the second quarter of the present financial year, due to stressed microcredit accounts.

Many SFBs had to keep aside a substantially high amount of money as provisions due to non-recovery of loans. On account of to the twin impact of demonetisation and rumours of debt waiver, the industry saw non-

performing assets increase to more than 5-6 per cent, against about one per cent prior to demonetisation.

Ujjivan Financial Services, the holding firm for Ujjivan Small Finance Bank posted a net loss of Rs 12 crore in the second quarter of the present financial year, against a net profit of Rs 73 crore in the corresponding period last financial year. In the first quarter of this financial year too, the bank had posted a net loss of about Rs 75 crore. The bank had to make a provision of about Rs 88 crore in the last quarter on account of bad loans.

Another listed SFB, Equitas Holding Ltd reported second-quarter net profit down by 76 per cent to Rs 10.91 crore from Rs 46.34 crore last year, mostly on account of higher provisioning for bad loans.

Ujjivan, Equitas and AU Small Finance Bank are the three listed small finance banks. AU Small Finance Bank had posted a net profit of about Rs 68 crore, against Rs 70 crore in the same period last year.

Fin care Small Finance Bank too suffered a loss in the first six months of the present financial year due to high provisions, said Rajeev Yadav, chief executive, Fin care.

"Most of the decline in profitability in the industry is due to provisions for microcredit portfolios impacted due to demonetisation. We have made a one-time provision, which led to the loss. We have provided for 3-4 per cent of our portfolio this time," said Yadav.

In the first half of the present financial year Suryoday Small Finance Bank managed to have a profit of about Rs 4.7 crore, but it was lower than last year's profit the same period. This year the bank would need to provide close to Rs 50 crore towards non-recovery of dues. This apart, it might have to provide close to Rs 10-15 crore in the first quarter of the next financial year, said R Baskar Babu, MD and CEO, Suryoday Small Finance Bank.

"The main reasons behind low profitability are marginal growth in portfolio and reduction in interest on account of NPAs. We hope to fully provide for NPAs by the end of this year. However, we might require some amount in the first quarter of the next financial year too," said Babu.

Kerala-based ESAF Microfinance too saw a reduction in net profit last quarter. However, the bank had already provided for a bulk of NPAs in the first quarter itself, said K Paul Thomas, Managing Director and CEO, ESAF Small Finance Bank.

One of the biggest blow for micro lending came last December with demonetisation and the debt waiver scheme. Many regular borrowers in states like Uttar Pradesh, Maharashtra, Madhya Pradesh, Uttarakhand, Karnataka stopped repayments, and from about 99 per cent, it came down to around 84 per cent. According to the latest data available from MFIN, at the end Q1 of FY 17-18, for NBFC MFIs the portfolio at risk (PAR) at more than 30 days is still high at 7.46 per cent, against 0.32 per cent in the same quarter in 2016-17.

As of Q1 of FY17-18, SFBs had about 17.3 million loan accounts with a total loan outstanding of Rs 28,634 crore under micro-credit.

Financial Express

2. Lower interest rates for borrowers in offering? Read where things stand

After the RBI guidelines, we (P2P platforms) now offer a legitimate business case for both lenders and borrowers

By: Shritama Bose

The Reserve Bank of India's (RBI) guidelines for peer-to-peer (P2P) lending will attract more people to these platforms and help bring down the interest rates for borrowers, Bhavin Patel, founder and CEO of LenDen Club, told Shritama Bose. Players in the segment have sought the regulator's clarifications on the permissibility of institutional lenders on P2P platforms, he added. Excerpts:

What do the RBI guidelines on P2P lending mean for players like you?

After the RBI guidelines, we (P2P platforms) now offer a legitimate business case for both lenders and borrowers. As far as the operational bit is concerned, these guidelines will offer a lot of clarity and transparency to the lenders because more than 70% of the regulations are about transparency and exchange of information between lenders and borrowers.

Will the RBI guidelines have an impact on the lending rates?

In the current scenario, the P2P lending market is a minuscule percentage of the huge lending market in India. But, due to the sentimental impact of the regulation, many more lenders may take to P2P lending, resulting in higher liquidity on such platforms. This will eventually lead to reduction of the interest rates offered to borrowers in this segment.

Some P2P platforms have expressed unhappiness about the prudential norms, especially the caps on lending and borrowing. What is your take?

We had lenders who had more than Rs 10 lakh of investment when the regulations came. Their first reaction was: we were happy without regulations. But we also understand the regulator's concern because people with limited understanding of the system may join the platform. To avoid that kind of misselling of the instrument, the regulator has put in place these protective measures. They may want to observe the space for 6-9 months before opening it up.

Will the guidelines impact P2P lending in the short term?

I don't think it will. In fact, it will have the opposite effect. On our platform, the average lender's investment is about Rs 5-5.5 lakh, which is well below the Rs 10-lakh limit set by RBI. However, there exists a 20:80 or 10:90 ratio, which means 10-20% of the lenders will have some exposure over the Rs 10-lakh limit. So, while the guideline will not restrict the capital coming into the platform, we would expect RBI to come up with a clarification on the institutional lenders like NBFCs on investment platforms wanting a higher exposure (than the prescribed limit).

The guidelines are silent on whether only individuals can lend through P2P platforms or even institutions are allowed. So, are we assuming that both can participate?

On the face of it, we can assume that. If we look at the definition of 'person' as used by the ministry of finance or the ministry of corporate affairs, it doesn't cover institutions or groups of people. But when it comes to RBI regulations, in one of the regulations for wallets, they have clearly identified that 'person' refers to all kinds of entities — individuals, groups of people or institutions. We have sought RBI's clarification on this as well.

Economic Times

3. SBI to use block chain for smart contracts and KYC by next month

ET Bureau |

India's largest lender State Bank of India will roll out beta launches of block chain-enabled smart contracts by next month, according to Sudin Baraokar, head of innovation, SBI. Block chain-enabled Know Your Customer (KYC) will soon follow suit. These applications are part of Bank Chain, a community of 27 banks, which have joined hands to explore and build block chain solutions for banking.

"By next month, we should have two beta production solutions ready for use by the 27 banks. We will also invite further participation. The beta production that will be ready are smart contracts and second is KYC," said Baraokar.

Bank Chain was formed in February with State Bank of India being the first member. It now has 22 Indian banks, including ICICI Bank, DCB Bank and Axis Bank and five Middle East-based banks. Bank Chain has tied up with Pune-based start-up Primechain Technologies to create these solutions.

"Bank Chain is a big move. It is getting all banks together and collaborating. It is also de-risking our investment in emerging tech, so that all banks can come and invest at once...we can also share knowledge and reduce the cost. We can also use each other's technical teams to take this forward. We focused on solutions that the bank does not have things like smart contracts, which is not regulatory heavy. We focused on those solutions," said Baraokar, in a chat with ET, at the recently concluded Bengaluru Tech Summit.

Smart contracts are basically contracts which use block chain, a distributed and decentralised ledger, to maintain contracts between parties. The code and agreements are public, hence traceable and irreversible and thereby do not need any enforcement agency.

"Smart contracts can be used for simple things like non-disclosure agreement... rather than signing forms. A lot of internal processes can be contracted. We do a lot of IT procurement, a lot of it can be implemented using block chain," said Baraokar.

SBI is also in the design phase of setting up an innovation centre in Navi Mumbai which will explore how emerging technologies such as Artificial Intelligence (AI), Machine Learning (ML), Robotic Process Automation (RPA), predictive analytics, etc., can help in easing various processes in banking. The centre, which is expected to be completed by mid next year, will house selected start-ups.

"We are building an innovation centre (to explore) AI, ML, block chain, RPA, visualisation, predictive analytics, etc. We will be having zones for these. We

can start collaborating and developing these solutions. It is a physical innovation centre at our IT headquarters in Navi Mumbai. We are in the design phase. We have allocated a dedicated innovation fund. We expect to see this up by middle of next year," said Baraokar. The centre will host hackathons, incubate start-ups and will also bring in vendors and internal talent to guide selected start-ups.

World over, banks are looking into block chain to come up with easy and secure solutions for processes such as peer-to-peer payments, loans syndication, KYC, cross-border payments and virtual currencies.

Business Line

4. 'Catholic Syrian Bank moving to a more stable and sustainable earnings base'

V SAJEEV KUMAR

Catholic Syrian Bank — one of the oldest private sector banks in the country — has not fully lived up to its heritage and exploited the business opportunities that were available even as newer entrants have marched past and left it behind during the past decade. There has been churn at the top and a new chief executive at the helm every few years has affected the bank's plans to an extent. The current incumbent CVR Rajendran, who has been in office during the last year, has focussed on cleaning up the balance sheet and putting in place a new structure to place the bank in a different growth trajectory. The bank is placing emphasis on doing business through "clearly defined verticals and clearly defined roles",

he said in an interaction with *Business Line*. Excerpts:

The bank seemed to have done well last fiscal when it made a profit after posting a huge loss in FY16. But appears to have slid again, reporting some losses in H1 of this fiscal. Why?

The net profit of ₹1.55 crore of FY17 was driven by treasury profit of ₹196 crore. It may be noted that if we exclude the treasury profit (which was due to the favourable yield movements in FY17), there was an operating loss of ₹44 crore. But if you analyse H1 figures, we have made ₹43 crore of operating profit, of which, the contribution of treasury was only ₹2 crore. Thus, now we are fast moving to a more stable and sustainable earnings base.

How do you plan to bring down the cost-to-income ratio from 75 per cent?

Reduction in the cost-income ratio will be primarily driven by revenue growth, combined with re-engineering of staff structure. Other than staff cost, if you conduct a common size statement analysis, our costs will be the lowest in the industry.

Staff cost is high due to the IBA pay structure, combined with high average age of employees, which, in turn, was contributed by the fact that we practically had zero recruitment during the period 1998 to 2007, which has caused a sort of 'missing middle' in our staff composition.

Now, we are addressing the same through selective lateral hires and low-cost non-IBA hires at junior levels. These initiatives will address both the

numerator and denominator of the cost-income ratio in a benign way as the cost per employee will be lower while revenue per employee will be higher, since we also will be building a robust performance-based pay matrix.

The bank has had a new chief executive every two years in the past decade. What is the reason?

VP Iswardas (who had joined the bank as a probationary officer) was appointed MD and CEO for a period of three years from November 30, 2009, to November 30, 2012, and he demitted office after completion of his term in November.

Rakesh Bhatia (from HSBC) was appointed MD and CEO for three years from April 1, 2013. However, due to personal commitments he had to resign from the post in March 2015.

Anand Krishnamurthy, who was also from HSBC earlier, was appointed MD and CEO w.e.f. July 4, 2015, for a period of one year which was extended for one more year. Unfortunately, he also had to leave the position in September 2016 due to personal commitments.

What has been the damage due to short tenures of CEOs?

Rakesh Bhatia had designed a strategy woven around SMEs and retail-focussed lending with emphasis on retail deposits and CASA, which continues to be our overall strategy. During his tenure, the bank inducted external talent in certain key posts/verticals.

Anand too continued the same strategy and also focussed on improvements in the processes. But in this period, the bank had to grapple with unprecedented increase in NPAs, mainly from certain legacy corporate and large SME accounts.

It was also the time when the bank was working on an IPO process to raise much-needed capital. After getting approval from SEBI, due to adverse market conditions, the IPO was abandoned.

Resultantly, the bank could not garner adequately enough capital to go ahead with business expansion, key strategic initiatives and other requirements as originally planned.

Now I can confidently say with the support of numbers that the worst is over on the NPA front. We will be one of the few — if not the only bank — who's net NPA has come down in September from the March level.

What have been your achievements in the past one year as CEO?

On joining, my first priority was to clean the balance sheet, which I did in the first three quarters. Then the focus was mainly on recoveries and arresting slippages. Resultantly, we recovered ₹141.88 crore in H1 FY18 while the entire recovery in FY17 was ₹103.18 crore.

Another challenge which I was facing was low credit-deposit ratio which has led to negative carry for the bank, since over ₹2,500 crore was deployed in short-term treasury assets.

I have shifted a significant portion of this to top-rated corporate lending so that there is return enhancement without eating into capital.

In the SME space, we are working on making our appraisal and rating systems robust before taking the big plunge, and learning from past mistakes. We have brought back our focus on gold loans and other retail loans.

For the first time in the history of the bank, we are running a book-building process through a merchant banker for raising the required capital.

The skew in the number of officers (1,634) compared to clerks (939) is very high. How is this proposed to be redressed?

This follows the industry trend since the role of clerks is now getting increasingly redundant, thanks to the advances in technology, while the role of the marketing person is increasing by the day.

There has been a provision of ₹1.80 crore for fraud. Why was this done? Has the fraud been identified and the damages calculated? What steps are being taken to avoid recurrence?

This relates to a couple of accounts due to external fraud committed by customers. We have strengthened our internal controls after this.

5. Rupee struggles to sustain at higher levels

GURUMURTHY K

The threat of the rupee weakening to 66 eased in the past week. The currency managed to sustain above the support level of 65.5 and strengthened sharply against the US dollar last week.

Thanks to the ratings upgrade from Moody's, the rupee opened with a wide gap-up and rose sharply higher, breaking above 65 to an intra-week high of 64.62 on Friday.

Moody's upgraded India's rating to Baa2 from Baa3.

However, the impact of this ratings upgrade on the currency was short-lived as the rupee reversed lower immediately from the high of 64.62, giving back most of the gains and tested 65 levels again. This reflects the inherent weakness in the rupee.

It also suggests that the concerns on recent weak macroeconomic data releases like the widening trade deficit are weighing more on the rupee.

The currency hit a low of 65.12 before closing at 65.09 on Monday, up 0.51 per cent for the week.

Dollar supports

Weakness in the US dollar also supported the rupee, helping it recover in the initial part of the week from around 65.5 levels. The dollar index (93.75) declined below the key support level of 93.85 to make a low of 93.40.

Though it managed to bounce back from this low, the index is not gaining momentum to rise past 94 again.

After testing this psychological resistance level of 94 several times since Thursday, the dollar index has come off again.

It is likely to dip and test the next support level of 93.30 in the near term.

A strong break below this support can take the index lower to 93 and 92.7 in the coming days. Such a fall may limit the downside in the rupee in the near term.

On the other hand, if the dollar index manages to reverse higher from 93.3, a rise to 94 can be seen again.

A range-bound move between 93.3 and 94 is possible for some time in that case.

A strong break and a decisive close above 94 is needed for the index to gain fresh momentum. Such a break will ease the downside pressure and take the index higher to 94.5 and 95 thereafter.

Rupee outlook

The sharp and immediate pull-back from the high of 64.62 last week indicates lack of fresh buyers for the rupee in the market. Immediate resistance is at 64.85.

As long as the rupee trades below this hurdle, a fall to revisit 65.50-65.55 levels is possible in the coming days.

A strong break and a decisive close below 65.55 will increase the likelihood of the fall extending to 65.8 or even 66 levels thereafter.

On the other hand, if the rupee manages to breach the immediate resistance at 64.85 in the coming days, it can strengthen to 64.60 again.

Further break above 64.6 will see the currency moving higher to 64.5 or 64.4 thereafter.

A cluster of resistances are present between 64.6 and 64.40. So, the pace of the up move beyond 64.6, if seen, could be slow.

Also, the rupee's strength is expected to be capped to 64.4 as a break above 64.4 looks unlikely at the moment.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY