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**Dear Comrades,** **27th November , 2017**

**News of Interest 27th NOV**

**MOTIVATIONAL QUOTES**

**"I BELIEVE IF YOU KEEP YOUR FAITH, YOU KEEP YOUR TRUST, YOU KEEP THE RIGHT ATTITUDE, IF YOU'RE GRATEFUL, YOU'LL SEE GOD OPEN UP NEW DOORS."**
**JOEL OSTEEN**

**HIGHLIGHTS**

**1. ARE YOU A CREDIT RISK? BANKS DIG DEEP IN YOUR PHONE TO FIND OUT**

**2. LAKSHMI VILAS BANK PLANS TO RAISE RS 786 CRORE THROUGH RIGHTS ISSUE**

**3. COMPULSION OF 30% DEPOSITS IN GOVERNMENT SECURITIES A BURDEN ON BANKING SECTOR, SAYS FORMER RBI GOVERNOR YV REDDY**

**4. SMALL RISE IN HOME LOAN DEFAULT IN 2 YRS**

**5. TINKERING IN RATES BY BANKS UNLIKELY IN SHORT-TERM: HDFC BANK**

**Business Standard**

## 1. Are you a credit risk? Banks dig deep in your phone to find out

Lenders are mining data on customers' smart phones to help assess their risk for loans in a potentially huge market

Corinne Abrams

Indian banks have started mining data on customers' smart phones for fast loan approval, testing out cutting-edge but controversial technology in what is potentially a huge market for such products.

Long hampered from lending to the hundreds of millions of Indians without credit histories, banks are hoping to slash risk-assessment costs and trigger a new wave of consumer lending with apps that look at everything from Face book connections to online shopping habits to rate potential borrowers.

India's most sophisticated banks are working with local and international fintech start-ups to develop, test and launch a version of a technology used by micro lenders in Africa, China and elsewhere.

"This is not an exact science, but actually it is a much better science than looking at static data," on long loan application forms, said Rajeev Ahuja, executive director at RBL Bank Ltd., which is working with partners to use social media to score customers without credit histories.

America's largest credit-ratings firm, FICO, last month began offering credit scores in India for the first time using these methods. FICO used so-called alternative data sources to "evaluate millions more consumers who were previously unscorable," said Sally Taylor-Shoff, a FICO vice president.

In the U.S., credit agencies have been cautious in digging deep into customers' phones due to regulatory hurdles and consumer concerns. There is also less of a need because of a robust nationwide database of information on borrowers. In India, banks say they are cautiously moving ahead as they await regulatory guidance on privacy and develop systems to get permission from applicants for access to their phones.

Mainstream Indian banks using the methods on a large scale could bring the technology to millions of people who were too expensive to lend to before. Until now, primarily financial start-ups and micro lenders have dabbled in the phone probing methods.

"If we manage to do it right as a country, potential for application is the largest," in the world, said Rajesh Kumar, co-head of retail risk at HDFC Bank Ltd. , India's second-largest private-sector lender which could start using the alternative data as early as next year.

Commercial banks had around $1.09 trillion of loans outstanding in September, according to the Reserve Bank of India. Of that, about $270 billion were personal loans, a portion whose growth is outpacing the overall loan market.

But about 40% of HDFC's 8 million and 12 million loan applications a month are from people without credit histories. Most Indians have never had a credit card or taken a home loan.

"People are invisible to the bank," because it is too expensive to nail down how much debt they can handle, said Monish Anand, chief executive of fintech startup Data signs Technologies.

To work with such consumers, Indian lenders have traditionally visited borrowers' homes to see where they live, talk to their families and neighbours and inspect documents. This process is costly for small loans.

Working together with fintech companies, many private Indian banks, including Kotak Mahindra Bank and HDFC, are exploring how the phone-scanning fintech apps can reduce risk assessment costs.

Bangalore-based payments startup Simpl is sharing a risk score it developed from looking at its users' online shopping habits with its financial partners for clues on their credit risk. Data signs Technologies, another Bangalore startup, is working with IDFC Bank and triangulates family and friend connections on Facebook to ensure loan applicants are telling the truth.

Singapore-based Lend do, which is working with FICO as well as banks in India, looks at the number of contacts a person has in their phone book and how often they interact with them, among 12,000 other data points. Regular interaction with the same group of people is a sign of a good borrower.

In trials, HDFC is using the phone location data of their agents to confirm the addresses of potential customers whose exact locations are hard to place with a ZIP Code, such as farmers. Kotak Bank is testing technology that lets it scan applicants' SMS messages, to get an idea of spending habits, since bank transactions are recorded there. It also can see their mobile connection speed and type of phone, another spending gauge.

ICICI Bank, India's largest private-sector bank, said this month that it has joined forces with Paytm, an Indian e-wallet company, to give loans based on their payment history on the Paytm app.

"On the fly we will be able to do a credit rating of them and we'll be able to give them a limit," for borrowing, said Anup Bagchi, executive director of the bank.

There are global implications. India's large scale provides a testing ground to hone algorithms. Once FICO has perfected this type of rating in India, for example, it says it could roll it out in other emerging markets.

Figures on the number of loans given this way aren't yet available. But optimists think the eventual potential is in the hundreds of millions of new borrowers and billions of dollars.

"India, by sheer numbers, is a fantastic market," said Abhinav Haldia, India director at Lend do.

With corporate borrowing stuck in the doldrums, Indian banks are hoping to get more growth out of retail lending with these apps. Retail loans at commercial banks rose 15% so far this year while overall lending in India is up only 5%. Banks know there is even more consumer business out there and the new phone-lending apps will help them serve that untapped market.

"It's not that the banks didn't want to lend, it's just that they didn't have too much information" on borrowers, said Vivek Belgavi, a partner at PwC in Mumbai.

**2. Lakshmi Vilas Bank plans to raise Rs 786 crore through rights issue**

Lakshmi Vilas Bank's issue will open on December 12 and end on December 26

<u>T E Narasimhan</u>

Lakshmi Vilas Bank (LVB) is planning to raise funds for the rights issue.

Earlier, the Bank's Board of Directors gave the approval to raise funds through equity shares on rights basis to existing shareholders of the Bank (Rights Issue) for an amount up to Rs 800 crore.

Today the Capital Raising Committee of the Board of the Bank met and decided that the rights issue to be offered at a price of Rs 122 only per Rights Equity Share (including a premium of Rs 112 only per right equity share) and the full amount is to be paid an application.

The issue of equity shares by way of the rights issue to the eligible shareholders of the Bank, for an amount aggregating up to Rs 786.87 crore.

The issue will open on December 12 and end on December 26.

The Bank is moving away from large corporate and decided to grow its SME and retail portfolios, where the stronger focus will be lent to gold loans, home loans and SME credit, among others.

**Financial Express**

**3. Compulsion of 30% deposits in government securities a burden on banking sector, says former RBI governor YV Reddy**

Former Reserve Bank of India Governor Y.V. Reddy on Saturday said the major problem of the Indian banking sector is the burden of investing 25-30 per cent of its deposits in government securities

By: IANS

Former Reserve Bank of India Governor Y.V. Reddy on Saturday said the major problem of the Indian banking sector is the burden of investing 25-30 per cent of its deposits in government securities. "The real problem for the banking sector in India is that 25-30 per cent of its deposits must be invested in government securities. Nowhere in the world is that much of burden put," said Reddy in an interactive session at the Times Delhi Lit Fest 2017 held here. "Second, there are other obligations as well. So you have to look at the totality of the system. But as far as few non-performing assets (NPAs) are concerned, NPA becomes a problem when the tax payer has to pay." Giving an insight into the problem of NPAs, Reddy explained that NPAs do not mean that the money has been robbed from the bank.

"NPAs do not mean that somebody is stealing the money. If there are NPAs in ICICI Bank, or HDFC Bank, that NPAs losses have to be borne by the shareholders," he said. Quoting his autobiography 'Advice & Dissent: My Life in Public Service', Reddy said NPAs are a bigger problem due to lack of proper provisions for collecting the lent-out money in the country's legal system. "NPAs is a big issue because the lender is not able to collect the money from the borrower. That is the big problem. As I have explained in my book, in India the legal system is such that the borrower repays out of moral compulsion," Reddy asserted. "Legally, there is no way in which the bank can collect the money, till recently. But the good thing is that the insolvency code has come. Number of fundamental things have happened (in the banking sector)."

**Economic Times**

**4. Small rise in home loan default in 2 yrs**

By *Mayur Shetty*

Auto and home loans have seen a marginal increase in the ratio of delinquent accounts—failure to make timely payment—over the last two years. However, gold loans and two-wheeler loans have witnessed a reduction in delinquencies.

A report by TransUnion Cibil (TUCIBIL) has shown that the overall delinquency rates in retail have been stable while variation in delinquencies among different segments has come down.

Defaults among borrowers of public sector banks and housing finance companies have shown a marginal uptick. “This can be attributed to the higher share of these institutions within the home loan segment that is displaying early portfolio deterioration. For NBFCs (non-banking finance companies) and private banks, while the overall portfolio delinquency is showing a downward trajectory, it should be noted that these institutions also displayed the most increase in disbursements over the last few periods that could suppress the delinquency ratios,” said Harshala Chandorkar, chief operating officer, TUCIBIL.

While lenders have focused on retail growth, NBFCs have made significant inroads in the last three years. The NBFC share of retail lending grew from 15% to around 20% of disbursement between 2014 and 2017. According to TUCIBIL, the NBFC share in the number of accounts opened grew from 21% to around 45% (27% to 49% among 21-35 age group customers) in the same time frame, reflecting their predominance in smaller ticket consumer durables, two-wheelers, small businesses and gold loans.

**Business Line**

## 5. Tinkering in rates by banks unlikely in short-term: HDFC Bank

PTI

With excess liquidity being drained out of the banking system, interest rates are in for a pause, said HDFC Bank Deputy Managing Director Paresh Sukthankar.

Both deposit and lending rates probably have bottomed out and further tinkering in rates by banks unlikely in the immediate future, he said. “Look at the successive policy that RBI has been putting out. Clearly what has happened to inflation and potentially oil and so on, it’s clear that from policy perspective they feel that room for further cuts are virtually not there,” he told PTI.

Given that progressively excess liquidity in the banking system has been mopped up, he said, the potential room for deposit rate coming down and therefore lending rate coming down is also some what lower. “Rates have probably bottomed out. I am not saying that they might suddenly change direction right away. Interest rates would be in a period of pause for a while,” he said.

Recently, many banks reduced lending rates especially housing and vehicle loans to take advantage of festival season demand. Asked about expectation from RBI monetary policy, Sukthankar said, it would be difficult to hazard a guess what the regulator is going to do.

The Reserve Bank of India (RBI) is scheduled to announce fifth bi-monthly policy on December 6.

On the promulgation of ordinance to amend the IBC, 2016, Sukthankar said, “It is going to make resolution process, effective fair and morally it resonates with what should be done.” The ordinance to amend Insolvency and Bankruptcy Code (IBC) bars those promoters who have wilfully defaulted on their debt obligations or are habitually non-compliant and, thus are likely to be a risk to successful resolution of the insolvent company.

The new law also makes ineligible those who have their accounts classified as non-performing assets for one year or more and are unable to settle their overdue amounts with interest and penal charges before the submission of the insolvency resolution plan.

The ordinance has plugged some of the important gaps which were there and it does improve the potential effectiveness of IBC, he said.

Terming the IBC as path breaking for resolution, he said, "There was a school of thought that suggested existing promoters to bid as they may know the best value of assets.

They may be in best position to leverage the assets so they would bid the most. It will help banks recover more.

"But you cannot allow the promoters who have misused the money, essentially wilful defaulters. It will be travesty of the whole system that they can come back because there is no legal bar," he said.

With kind regards,

Yours Comradely,

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