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Dear Comrades,

6th October , 2017

News of Interest 6th OCT

MOTIVATIONAL QUOTES

“ALL YOU NEED IS THE PLAN, THE ROAD MAP, AND THE COURAGE TO PRESS ON TO YOUR DESTINATION. “ EARL NIGHTINGALE

HIGHLIGHTS

- 1. SBI TO SELL NPAS OF OVER RS 3,550 CR TO ARCS, FINANCE COMPANIES**
- 2. RBI PANEL PUSHES NEW RULES SO LENDERS PASS ON RATE CUTS MORE QUICKLY**
- 3. LENDING RATES: RBI PROPOSAL POSES MANY QUESTIONS**
- 4. SOON, PAY FROM ONE E-WALLET TO ANOTHER**
- 5. IDFC, SHRIRAM GROUP EXTEND MERGER EVALUATION PACT TILL NOVEMBER 8**

Business Standard

1. SBI to sell NPAs of over Rs 3,550 cr to ARCs, finance companies

The top accounts include Jai Balaji Industries (Rs 873 crore), MSP Metalics (Rs 554 crore) and Shiva Textfab Ltd (Rs 531 crore)

Abhijit Lele | Mumbai

To clean its books the country's largest lender State Bank of India (SBI) is selling portfolio of 24 non-performing assets (NPAs) to asset reconstruction companies (ARCs) and finance companies. The total outstanding for 24 accounts is about Rs 3,554 crore, according to a document prepared for sale transactions.

The top accounts include Jai Balaji Industries (Rs 873 crore), MSP Metalics (Rs 554 crore) and Shiva Textfab Ltd (Rs 531 crore).

These accounts — small and medium size units — belong to sectors including steel, power, textiles and hospitality. SBI's gross NPAs

at the end of June 2017 stood at Rs 1,88,068 crore. These include gross NPAs of erstwhile associate banks that merged with it on April 1. The incentive on net recovery amount will be given to ARCs if recovery is effected within three years, SBI said.

2. RBI panel pushes new rules so lenders pass on rate cuts more quickly

Currently, banks can use multiple market rates and each one is free to set its own benchmark

Reuters

A panel created by the Reserve Bank of India (RBI) said lenders are not sticking to rules that determine how much they can charge for loans, and proposed new requirements that could force banks to pass on interest rate moves to customers more quickly.

The panel, set up to look into why commercial banks were not passing on the central bank's rate cuts, said in a report that banks "deviated in an ad hoc manner from the specified methodologies" for calculating their lending rates to avoid fully following the RBI's rate moves.

The RBI has cut its policy rate by a total of 200 basis points from January 2015 to August 2017 to support economic growth, but to its frustration banks have lowered their lending rates by only about 120 bps.

The panel proposed to remove some of the leeway that banks have enjoyed, including allowing lenders to use only one of three benchmarks to set their lending rates: the policy repo rate, Treasury bill rates or certificate of deposit rates.

Currently, banks can use multiple market rates and each one is free to set its own benchmark.

The five-member panel also proposed in the report late on Wednesday that the banks adjust the key criteria used to set their lending rates once a quarter, rather than the current once a year.

If the RBI adopts the full proposals in the 108-page report, it could mark a tougher line against banks that fail to pass on its rate cuts, though bankers said they would still have some latitude.

Much would also depend on how vigorously the central bank is willing to enforce the rules.

The panel's report was released on the same day as an RBI policy decision in which it held interest rates steady but reduced the amount of bonds lenders must keep with the central bank in order to spur more loans.

A sudden spike in inflation is seen limiting the RBI's ability to cut policy rates further in coming months.

"This (the new proposals) will be an automated process where the lending rate will be determined by how, say a treasury bill, moves rather than be based on each bank's discretion," said a senior banker at a private bank, declining to be identified as he was not authorised to speak to media.

The RBI last year unveiled the so-called marginal cost of funds-based lending rates (MCLR), which sought to remove much of the discretion commercial banks have to set lending rates and force them to base borrowing costs on prevailing money market rates.

Banks were instructed to follow a specific formula in setting lending rates, although the RBI has since made some tweaks.

Indian banks are struggling with a record \$140 billion in stressed assets, and have sought to protect their margins by trying to avoid lowering their lending rates.

Financial Express

3. Lending rates: RBI proposal poses many questions

The Reserve Bank of India's (RBI) proposal to link lending rates to an external benchmark might solve the persisting issue of monetary transmission but questions arise as to how these short-term rates could help in the effective pricing of long-tenure loans and how banks could convince their customers to shift to floating-rate term deposits

By: [FE Bureau](#)

The Reserve Bank of India's (RBI) proposal to link lending rates to an external benchmark might solve the persisting issue of monetary transmission but questions arise as to how these short-term rates could help in the effective pricing of long-tenure loans and how banks could convince their customers to shift to floating-rate term deposits.

An internal study group of the RBI has shortlisted three potential external benchmarks to which bank lending rates could be linked — the treasury-bill rate, certificates of deposit rate and the RBI's policy repo rate. These rates were shortlisted after analysing 13 different benchmarks that included government securities yield, weighted average call rate etc. The study group recommended that all floating rate loans extended beginning April 1, 2018 could be referenced to one of the three external benchmarks selected by the Reserve Bank after receiving and evaluating the feedback from stakeholders.

However, the movement in short-term rates may not reflect the change in long-tenure rates, as a result of which pricing long-term loans based on these benchmarks might not be an exact reflection of market dynamics.

As R Sivakumar, head – fixed income at Axis Mutual Fund points out, it would be imprudent to price a longer-tenure loan to a benchmark that reflects short-term rates.

"There are times when the yield movement occurs at the longer end of the maturity but short-term rates remain stable. In such cases, we may not see rate transmission to the loan market despite the fact that the market may be pricing in a fall in long-tenure yields," Sivakumar said.

Such a situation occurs, say for example, when inflation numbers fall and expectations of a rate cut gains momentum. Such periods can last for a few weeks to a month and often leads to fall in long-tenure yields whereas short-term rates remain intact. In such a situation, rates on longer-tenure loans may not move down in tandem with the market dynamics. This gains more prominence even as the study group has recommended the periodicity of interest rate reset to be reduced to three months from a year.

The study group asserts that the repo rate should not be a handicap for term lending, as banks are equipped to factor in tenor premium appropriately, as they have already been doing.

However, it has also acknowledged there are disadvantages to the three benchmarks. The main challenge in using either T-bill rates or CD rates as the benchmark is that the current level of market depth in the T-bill and CD markets can make such

benchmarks potentially susceptible to manipulation, the report stated. It added that T-Bill rates may at times reflect fiscal risks which will automatically get transmitted to the credit market when used as a benchmark.

CD rates also have their own limitations — high sensitivity to liquidity conditions, credit cycles, and seasonality. Liquidity in the CD market is inadequate because there are no large and frequent issuances by a sufficient number of highly rated banks. Latest RBI data shows that outstanding CDs in the system stand at ` 1.14 lakh crore while ` 12,130 crore worth of CDs were issued in a fortnight. At the same time, ` 11,000 crore worth of T-bills are issued every week.

As far as the repo rate is concerned, linking bank lending rates can constrain future changes in the monetary policy framework, the report indicates. Banks also have limited access to funds at the repo rate and being an overnight rate, the repo rate also lacks a term structure, it added.

Ananth Narayan, a money market expert, indicates that T-bills and repo rates are better benchmarks than CD rates.

“The advantages of having T-bills and repo rate as an external benchmark is that the RBI can actively manage these segments whereas in a CD market, as on date, the central bank cannot engage directly,” Narayan points out.

Economic Times

4. Soon, pay from one e-wallet to another

By *Digbijay Mishra*

The RBI has decided to allow payments from one e-wallet operator to another by facilitating inter-operability within six months.

The central bank, however, has incorporated a rider that the facility will be allowed only for KYC compliant users, which is a small proportion of the overall user base. The RBI is expected to revise its norms for inter-operability by October 11.

The development comes at a time when digital payments in India are moving towards payments platforms like unified payments interface (UPI) where money need not be locked in a wallet. UPI enables transfers directly from a bank account.

So far, leading wallets like Paytm, Free charge and Mobikwik operate in a closed loop structure where the money movement is restricted within the network of a mobile wallet. After demonetisation, digital payments saw a sudden spike in wallet usage but cash usage is almost back to pre-demonetisation levels as cash is back in the market. Moreover, options such as net banking, debit credit cards are being preferred for digital payments. The RBI measure is not seen to be providing a major boost to wallet players. “First, the base of KYC compliant users even for the largest player like Paytm would not be more than five million which includes the merchants as well. Second, the wallet users are changing their loyalty based on the amount of discounting. So this new move might not have a huge impact on the ecosystem,” said Arnav Gupta, analyst at Forrester Research.

Digital wallets, backed by venture capital money, have been offering discounts cash back to users to open accounts with them. Alibaba-backed Paytm has been leading the front in this space on the back of funding from Alibaba and Softbank. Companies like Mobikwik and Free charge too have taken similar approach for customer acquisition.

Business Line

5. IDFC, Shriram Group extend merger evaluation pact till November 8

OUR BUREAU

IDFC and Shriram Group have agreed on a month's extension of the 90-day confidentiality, exclusivity and standstill (CES) agreement for evaluating a potential combination of certain businesses and subsidiaries/affiliates of the Shriram Group engaged in the credit and non-credit financial services sector with the IDFC Group.

In identical stock exchange notices, IDFC, IDFC Bank, Shriram City Union Finance (SCUF) and Shriram Transport Finance Company (STFC) said the extension of the agreement up to November 8 is in view of the extensive due-diligence process involved and the on-going discussions.

The CES agreement primarily provided for a mutually agreed 90 days exclusivity period from July 8, 2017, for due diligence and discussions between the relevant parties in relation to the proposed transaction.

As per the contours of the proposed merger, all the operating businesses of the respective groups will come together under the flagship group "IDFC Ltd."

The retail consumer-centric business of Shriram Capital — SCUF — will be absorbed into IDFC Bank. The transport finance business of Shriram Capital (STFC) will remain a standalone NBFC that would become a subsidiary of IDFC Ltd. The life and general insurance businesses will also become subsidiaries of IDFC.

In the right direction

Edelweiss, in a research report, said strategically, the merger is in the right direction given that IDFC Bank was struggling with execution and growth and Shriram group, with the current retail asset base of over ₹1 lakh crore, had long term structural growth concern in the absence of a stable low-cost liability franchise.

"However, there could be near-term challenges with respect to execution, regulatory approvals, capital allocations, holding company discount, etc.

"...We believe IDFC Bank would be relatively better placed while Shriram Group would be in a compromising position. However, a lot would depend on swap ratios finally agreed upon between both the groups," the report said.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY