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Dear Comrades,

4th September , 2017

News of Interest 4th SEP

MOTIVATIONAL QUOTES

“OUR ATTITUDE TOWARDS OTHERS DETERMINES THEIR ATTITUDE TOWARDS US. “
EARL NIGHTINGALE

HIGHLIGHTS

1. BUREAUCRACY TRIES TO ERODE RBI GOVERNOR'S POWERS: RAGHURAM RAJAN
2. FINANCE MINISTRY WRITES TO HEADS OF PSU BANKS ON CONSOLIDATION
3. CREDIT GROWTH OF BANKS SLOWED TO 8.1% IN 2016-17: REPORT
4. IT MAY TAKE ATMS THREE MONTHS TO DISPENSE RS 200 NOTES
5. SYNDICATE BANK GETS NEW CHAIRMAN

Business Standard

1. Bureaucracy tries to erode RBI governor's powers: Raghuram Rajan

More clarity about the central bank's role needed, he writes in *I Do What I Do*

Anup Roy

Former Reserve Bank of India (RBI) governor Raghuram Rajan has reiterated his concerns over the bureaucracy impinging on the powers of the central bank. He has also said it should be made clear that the RBI chief is not just another bureaucrat.

“There is a danger in keeping the position (of the RBI governor) ill defined, because the constant effort of the bureaucracy is to whittle down its powers,” the 23rd RBI governor has written in his book, *I Do What I Do*.

“This is not a recent phenomenon...” the former governor has written. “The RBI risks becoming dangerously weakened, as successive governments and finance ministers have misunderstood its role.”

"The RBI governor, as the technocrat with the responsibility for the nation's economic risk management, is not simply another bureaucrat or regulator, and efforts to belittle the position by bringing it into the bureaucratic hierarchy are misguided," Rajan wrote, adding: "Clarity about the RBI's role, and a clearer assertion of its independence, would be in the nation's interest."

This is probably the first time Rajan has spoken so clearly on the issue, highlighting a clear divide between the finance ministry and the RBI. In the section quoted above, he has clarified some points he made in his last speech as RBI governor on September 3, 2016, at St Stephen's College in Delhi.

In that speech, Rajan had said, it was dangerous to have a "de facto powerful position with low de jure status".

Rajan has also elaborated on the lack of a clear definition of the central bank governor's position in the government. The governor's salary was at par with that of Cabinet secretary and he was appointed by the prime minister in consultation with the finance minister. "The governor's rank in the government hierarchy is not defined but it is generally agreed that decisions will be explained only to the prime minister and the finance minister," he had said in his speech. None of this, including the informal understanding of having the powers to make decisions for macroeconomic stability, should be changed, he had said. He added if these issues were ever revisited, "there may be some virtue in explicitly setting the governor's rank commensurate with her position as the most important technocrat in charge of economic policy in the country".

In his book, Rajan also touched upon his interview, in which he compared India's economic rise in a weak global environment as something like "in the land of the blind, the one-eyed man is king". It was greeted with controversy. Rajan, in his book, writes he was "finally fed up of the perhaps motivated search for controversy". He later clarified his usage of the phrase in a subsequent speech, but even that speech was also somewhat misinterpreted.

Rajan reveals in his book that he thought "there was no need to clarify further. Those who did not wish to understand could not be forced to do so".

The former RBI governor has written that had he known his "Hitler" remark on a speech would turn out to be so controversial, he would have never used the analogy and in no way was it connected to any specific administration.

In an honest admission, Rajan writes his first speech after assuming office, in which he underlined a reforms agenda and opened up a scheme of dollar deposits from non-resident Indians, was a "facade of confidence to assure the public and investors that the RBI knew what had to be done". The purpose was to send out a message that "India had strong institutions like the RBI that could push reforms forward even when Parliament was stalled, and international investors should not write India off".

The message worked and the rupee, which had breached its record low of 68.87 a dollar a month before, stabilised and started strengthening.

In the book, Rajan is also candid about demonetisation and said he was not party to the decision. He claims to have warned the government that the short-term cost of demonetisation would outweigh the long-term benefits and that there were better ways of achieving the same objective, without banning notes outright.

Rajan was then asked to prepare a note, which the RBI put together. "It outlined the potential costs and benefits of demonetisation, as well as alternatives that could achieve similar aims. If the government, on weighing the pros and cons, still decided to go ahead with demonetisation, the note outlined the preparation that would be needed, and the time that preparation would take. The RBI flagged what would happen if preparation was inadequate".

The government then set up a committee, attended by the deputy governor in charge of currency, to consider the issues. "At no point during my term was the RBI asked to make a decision on demonetisation," Rajan writes.

Rajan demitted office on September 3, 2016. Demonetisation was announced on November 8.

This indicates, even at best, the RBI under Rajan's successor, Urjit Patel, would have got a maximum of two months to prepare for demonetisation. The period could, in fact, be much less, considering the secrecy required to make it a success.

In its annual report, the RBI has claimed that out of currency with value of Rs 15.44 lakh crore that was banned, Rs 15.28 lakh crore was back in the banking system. This has sparked a nationwide debate on whether demonetisation was a success or a failure.

In an interview on September 3, Rajan said the exercise might not have been a success after all.

Dealing with bad debts, Rajan said, it was not easy to convince banks to take the task head on. "The pillar where we made the least progress, despite the involvement of the best and the brightest in the RBI, was in getting the banks to recognise financial distress and deal with it."

2. Finance ministry writes to heads of PSU banks on consolidation

Govt has been nudging state-owned lenders to merge, in order for stronger, fewer banks to exist

Press Trust of India

The finance ministry has written letters to all heads of PSU lenders informing them the government's decision to set up a ministerial panel to facilitate consolidation in the public banking space.

A formal communication to CEOs of the banks from the Department of Financial Services last week has set in motion the consolidation process, a senior finance ministry official said.

The government has been nudging the state-owned lenders to go for merger so that there can be fewer and stronger banks.

The ministry wants banks to undertake an internal exercise for the best match and come up with the merger idea for the alternative mechanism (AM) set up for the purpose.

The banks should analyse regional balance, geographical reach, IT compatibility, financial burden and human resource transition while firming up the merger proposal for the ministerial panel.

Last month, the Union Cabinet decided to set up the alternative mechanism to oversee proposals for expeditious consolidation of public sector banks (PSBs) so as to create larger and stronger lenders.

The proposals received from banks for in-principle approval to formulate schemes of amalgamation will be placed before the panel.

To fast-track consolidation, the government has exempted mergers of nationalised banks from seeking fair trade watchdog CCI's approval.

This exemption will be applicable for ten years and comes at a time when several

experts and even policymakers have been talking about the need for consolidation in the banking sector, especially among state-owned banks.

Asked how soon there could be consolidation, the official said: "It will be a few months as it is not a simple process."

The merger of associate banks with SBI was slightly easy because they were subsidiary of the largest lender, the official added.

Earlier this year, the government had approved the merger of SBI's five associate banks with the parent. In March, the Cabinet also approved the merger of Bharatiya Mahila Bank (BMB) with SBI.

Financial Express

3. Credit growth of banks slowed to 8.1% in 2016-17: Report

The credit growth of all banks slowed down to 8.1 per cent in 2016-17 from 10.9 per cent in the previous year, though the aggregate deposits improved on account of massive flow of funds after demonetisation, a Dun and Bradstreet report said on Saturday

By: [IANS](#)

The credit growth of all banks slowed down to 8.1 per cent in 2016-17 from 10.9 per cent in the previous year, though the aggregate deposits improved on account of massive flow of funds after demonetisation, a Dun and Bradstreet report said on Saturday. "The credit growth of all scheduled commercial banks slowed down from 10.9 per cent in 2015-16 to 8.1 per cent in 2016-17. The growth in aggregate deposits, on the other hand improved from 9.3 per cent in 2015-16 to 15.9 per cent in 2016-17, largely on account of a massive flow of funds into the banking system after the demonetisation of November 2016," the report titled 'India's Top Banks 2017' noted.

It said that the banks' non-performing assets (NPAs) continued to display the highest level of stressed advances. "The gross non-performing advances (GNPA) of banks rose to 9.6 per cent in March, 2017 from 7.5 per cent in March, 2016. The net NPA ratio of banks stood at 5.5 per cent in March 2017," the report said. "At present, the Indian banking sector is going through a critical phase. The credit growth has remained subdued, particularly in the case of public sector banks. Increase in stressed assets has affected the profitability of banks and therefore, deteriorating asset quality means a major challenge for the banking industry," Manish Sinha, Managing Director- India, Dun and Bradstreet said.

The Indian banking sector has lately grappled with various challenges, including degradation in asset quality and a sharp slowdown in credit off take. The report highlights that an improvement in India's macroeconomic fundamentals, the underlying potential in terms of a largely under-banked population and the digital push by the government can be leveraged to help the sector turn the tide in the coming years.

In 2016-17, the aggregate total income of the 68 profiled banks stood at Rs 11.5 trillion, reflecting a 6.7 per cent growth. The total income of private sector banks grew by a healthy 15.8 per cent during the year, as against a modest growth in public sector banks (3 per cent) and foreign banks (5.8 per cent), it said. "The aggregate value of Net Interest Income (NII) of profiled banks rose by 6.4 per cent to Rs 3,284.8 billion. Private banks reported a 15.7 per cent growth in NII, as against a flat performance by public and foreign banks," the report stated.

In 2016-17, the aggregate net profit of the profiled banks grew by a whopping 72.6 per cent to Rs 562.9 billion. The report highlights the opportunities and challenges the banking sector faces as well as analyses the financial performance of 68 scheduled commercial banks.

Economic Times

4. It may take ATMs three months to dispense Rs 200 notes

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While the RBI launched the 200-rupee note a week ago, it may take up to three months for ATMs to start dispensing the new denomination currency as it will involve a huge exercise of recalibration.

Some banks have even asked the ATM companies to begin testing the new note for recalibration of the machines, though they have not got supplies of the new currency. Only last year, the banks were involved in recalibration ATM machines after the demonetisation of high-value currency notes in November.

Reserve Bank of India (RBI) did issue a statement saying that the supply of the new Rs 200 notes would soon be ramped up, but has not given any time-frame by which it will be available in adequate numbers.

ATM manufacturing companies said that they have not received any directive from the RBI regarding the recalibration of ATMs for the new Rs 200 note. They disclosed that some banks have at an informal level have asked them to start testing of the new note, since it is of a different size.

It is yet to be seen whether all the 2.25 lakh ATM machines across India would be recalibrated for dispensing the new note.

Ravi B Goyal, Chairman and Managing Director, AGS Transact Technologies Limited, which claims to have an installed base of 60,000 ATMs, told IANS, "The process of recalibration will begin once we receive the directive from the RBI. The size of the new notes is different from the existing ones and so, once we receive the new notes, we will have to understand its dimensions and accordingly reconfigure the ATM cassettes. Next, we will have to check if the supply of notes is good enough to run the cassettes at full capacity."

"The entire process of recalibration can be completed within 90 days without affecting the regular functionality of ATMs to a large extent. In fact, the ATMs will continue to be fully operational during recalibration and will continue to supply Rs 100, Rs 500 and Rs 2,000 denominations," he said.

Among the other companies operating in the sector are NCR Corporation, which has over 1,08,000 machines, and BTI Payments, which has 4,500 cash dispensers.

NCR Corporation said that while some banks have reached out to them to start testing of the new note, they were yet to receive the supply to begin the process.

"Banks have started getting in touch with us for testing the same. They will let us know which machines they wish to configure for Rs 200, which will require physical visits to ATMs. However, the new notes are still to be provided to us by the respective banks so that the testing can begin" Anand Garollu, General Manager (Services), NCR Corporation said.

K. Srinivas, Managing Director and CEO of BTI Payments, an RBI-licensed firm that operates cash dispensers not owned and managed by banks, said, "Recalibration will

begin as and when we receive adequate quantity of Rs 200 notes. We are looking to roll this out as quickly as possible."

He said that the industry was expecting Rs 200 notes to be available over a period of time across various geographies.

"The recalibration can be done progressively as and when the new denomination note starts to become available. Unlike the last time around (during demonetisation), when we had to recalibrate all machines in one go," Srinivas added.

The ATM companies said that they were expecting to receive official communication on recalibration of ATMs soon. However, e-mails to RBI in this regard did not elicit any reply, they said.

"The production of these (Rs 200) notes is being ramped up by the currency printing presses and over time, as more notes are printed, it will be distributed across the country through the banking channels and will be available for public in adequate quantity," the RBI had said in a statement.

Currently, Rs 200 notes are available only through select RBI offices and some banks.

While State Bank of India BSE 0.13 % and Punjab National Bank are reported to have received the new Rs 200 notes, Eknath Baliga, Manager, KYC-Antimoney Laundering Cell, Corporation Bank, Mangalore, told IANS that none of its branches across the country had received the Rs 200 notes so far.

The Rs 200 note is currently being printed only by RBI presses. Security Printing and Minting Corporation of India (SPMCIL) sources told IANS that the company has not received any indent so far for the printing of Rs 200 notes. India's two currency presses are owned by RBI and two by SPMCIL, which is a government-owned company.

How the ATM recalibration happens:

Usually, an ATM holds four cassettes -- three of which can continue to be used for Rs 100, Rs 500, Rs 2,000, and the fourth cassette can be used for the new Rs 200 notes. On an average, each cassette has a capacity to hold 2,000-2,500 notes depending upon the quality of cash issued by banks. However, there are many ATMs that only have either two or three cassettes.

The number of slots in the ATM can be configured as per the bank's preference. The banks decide which denomination needs to be configured in a machine on the basis of the customer profile in the area where the ATM is located and the number of transactions on that machine.

The banks need to make requisite changes at their ATM switch before the roll-out of the physical recalibration at the ATMs in the field.

The recalibration of a new denomination takes 30-45 minutes per ATM. The process of recalibration is not very difficult but is time-consuming given an engineer has to visit every ATM and configure it to dispense the requisite denomination.

The introduction of the Rs 200 note has been welcomed as it would ease the currency circulation in the market as people prefer lower denomination cash withdrawals from ATMs. Rs 200 would also be more convenient for rural consumers.

Business Line

5. Syndicate Bank gets new chairman

OUR BUREAU

Ajay Vipin Nanavati has assumed charge as Chairman of Syndicate Bank. Nanavati, a chemical engineer from Virginia Tech, US, started his career at 3M in India in 1988. A board member of Aicon, Nanavati is an innovation evangelist. He mentors start-ups/SMEs, and is an angel investor. He is the co-sponsor for the CII Directors Guild on corporate governance and a member of the CII Start-Up Council.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY