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Dear Comrades,

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News of Interest 20th SEP

MOTIVATIONAL QUOTES

“STYLE IS A REFLECTION OF YOUR ATTITUDE AND YOUR PERSONALITY. “
SHAWN ASHMORE

HIGHLIGHTS

1. BANKS PLAY 'MIND GAMES' TO WOO CUSTOMERS
2. BATTLING WILFUL DEFAULTERS
3. HOW A QUASHING PETITION TWISTS LOAN DEFAULT CASE
4. BANKS UNABLE TO SELL STAKE IN STRESSED POWER ASSETS
5. FOLLOW UNIFORM METHOD IN PUBLISHING DEATH CLAIMS PAID, IRDAI TELLS LIFE INSURERS

Business Standard

1. Banks play 'mind games' to woo customers

Big data and 'games' are the tools of the trade

Anup Roy | Mumbai

Pradipta Sarkar, 37, is saving Rs 10,000 every month, one-fifth of his take-home salary, in a fixed income-linked systematic investment fund (SIP) to build his retirement corpus. But being a soccer fan, his dream is to cheer for his favourite team, Germany, from stadia in the World Cup matches some day.

Would Sarkar, an information technology sector employee, set aside Rs 3,000 in high-return investment schemes, and reduce his monthly retirement savings to Rs 7,000, to materialise his soccer dream?

Banks now have a powerful tool — behavioural science — to figure that out. Lenders are of the opinion that by knowing short-term private dreams of their customers and

giving personalised attention to achieve them, the stickiness of customers will improve.

Psychologists say there is a science behind it. "Most people tend to choose short-term goals over long-term objectives, and the propensity for immediate gratification is very powerful in human psyche," said Dr Jawaharlal Mehta, a Mumbai-based psychiatrist.

However, "the downside is, when you reach the stage where long-term converges with the present, and if you have not prepared enough, you will find yourself nowhere," Dr Mehta added.

Behavioural science is already being used for selling a variety of products, but using it for financial products is an extension of a wealth-management practice, where managers define 'goals' for the customer rather than returns, said a senior executive of a large private bank.

Banks in India have been using goal-oriented products for two-three years now. Some foreign banks as well as a few private banks in India could be working on knowing their customers up close and personal to boost their business. Big data and 'games' are the tools of the trade.

Using behavioural science as a finance tool was introduced by a Mumbai-based Indian firm, Final Mile Consulting, which claims to be pioneering the practice of behaviour architecture, applying learning from "cognitive neuroscience, behavioural economics and design". The company now also has offices in the US, and is in high demand among top banks for their 'games'.

"If I say you need to save Rs 8 crore for your retirement, you will give up immediately. But if I can show you through a game that you have enough resources right now to ensure that amount is accumulated at retirement, your expenditure and saving pattern will change," said Anurag Vanish, co-founder of Final Mile.

Interestingly though, by simulating the sacrifices to be made to reach one particular objective and offering other interesting side objectives, the 'games' tend to bring out the hidden desire of a person.

"These are typically 20-30 minutes' game, but every time, the gamer tends to come up with a different conclusion about her life than what were there in her mind always. It is the right thing to say you are saving for your daughter's education, but it turns out you really wants that Ferrari," Vanish said.

In developed markets, banks take these games and offer them to their customers through their own application. When the customers play the game and agree to share their data with the bank, the wealth manager steps in.

Final Mile has now partnered TransUnion Software Services to develop a similar application for the local market. Called WealthMapp, the application can be downloaded from the Google Play Store for free. The application is not linked to any bank, and it doesn't share the data with any bank. It offers a dashboard where a customer can plan her goals and know the approximate monthly savings needed to achieve that. In the back-end, the application is connected with a whole host of global economic databases, so that it can work out an approximation of the present cash flow needed to achieve something after a set period. The application does not dig for customer's personal data, but works on the figures put in the app.

It is essentially a version of a 'game' and this can reveal much to the customer as well as to data aggregators, in this case TransUnion. For example, TransUnion can gauge the saving pattern of a set of customers from a particular socioeconomic background and location, and age group.

Shaleen Srivastava, head of solutions and alternate data at TransUnion, said the data would be used for creating different models, but unless the customer directly wanted, the data would never be shared with any bank.

So, if somebody wants to save enough to send her daughter to a college in the US, the app will extract education inflation and other costs, and present an approximate amount to be saved every month. The app itself would sit unobtrusively in the mobile phone, alerting the customers if some lead economic indicators change.

"But it won't be much. You don't expect the US education inflation to suddenly shoot up to 10 per cent from, say, 2 per cent now. May be it would be 2.1 per cent, in that case the app will tell you that you would need to save Rs 100 more this month," said Vaish.

It is quite likely that the next set of product planning offering by banks would be on the lines of the WealthMapp application.

2. Battling wilful defaulters

With high pressure on profitability and credit costs, banks and FIs have stepped up action against them

Abhijit Lele

Banks and financial institutions (FIs) have been hit hard by defaulting borrowers, especially corporate houses and firms, facing a number of woes. Many have failed to pay because of a sharp dip in revenues and businesses going bust. In view of this, some keep defaulting despite their ability to pay. They are, hence, termed wilful defaulters. With high pressure on profitability and credit costs, banks and FIs have stepped up action against them.

Economic Times

3. How a quashing petition twists loan default case

By Saikat Das

The State Bank of IndiaBSE 0.11 %, the leading lender to Shree Ganesh Jewellers, now has to contend with a fresh twist in its criminal case against the embattled Kolkata company that is accused of defaulting on Rs 2,600 crore worth of loans taken from several domestic banks.

Dubai-based Kamlesh Parekh, one of the three brothers who owned the company, has filed a petition in the Calcutta High Court seeking the quashing of the criminal complaint of fraud filed by SBI and the Central Bureau of Investigation (CBI) against him. Kamlesh, the youngest of the three founders, said that he had parted from the other brothers due to a family dispute and is disassociated from the defaulting jeweller.

"My client is not holding any position in the company owned by the three brothers," said Zulfiqar Memon of MZM Legal, which is representing Kamlesh Parekh. "We have sought this quashing petition because this criminal complaint is hurting his business activities. Kamlesh Parekh has only ownership of shares through ancestry, but was never involved in any company activities."

The quashing petition will be heard by the Calcutta High Court Wednesday.

In its FIR filed in July 2016, SBI accused company promoters/executives of siphoning off funds: "The accused persons committed an elaborate bank fraud causing wrongful loss of Rs 2,619.04 crore to 25 banks."

Shree Ganesh Jewellery BSE 3.45 % is accused of using loans funds from banks to finance two companies - Dubai-based Aastha Jewellery and Sparkle Jewellery LLC - that are owned by Kamlesh Parekh. He is engaged in the entertainment businesses in the Middle East.

"I hold about 24% shares through ancestry and secondary-market transactions," Kamlesh Parekh told ET over the telephone. "My brothers insisted that I sell my stake, but I will only do that once I get my valid share of other ancestral properties. Lenders may not have a clear idea of my engagement in the company. They have filed an FIR, which is detrimental to my own businesses in Dubai." Parekh said.

He said that Aastha Jewellery is not connected to the transactions, and that he had sold Sparkle some eight-nine years ago.

"I have never signed any loan document. I am not even a guarantor for any of the loans," he said. A few months ago, the police arrested Nilesh Parekh, one of the brothers and a promoter of the company, from Mumbai airport. Umesh Parekh, the other brother is not yet traced. Investigations are on.

Business Line

4. Banks unable to sell stake in stressed power assets

KSENIA KONDRATIEVA

Lenders may find it difficult to offload their stake in stressed power assets, even after taking substantial haircuts, due to lack of optimism in the power industry on the ability of State distribution companies to sign new power purchase agreements (PPAs).

A number of struggling power assets, including Jaiprakash Power Ventures Limited (JPVL) of debt-laden Jaypee Group, are looking for new buyers. Lenders, including SBI, ICICI bank, IDBI, Punjab National Bank, and Central Bank of India, are looking to offload at least 30 per cent in JPVL.

While market talk suggests dozens of buyers in the fray, including power players like Tata Power, Adani Power and JSW Energy, none has formally confirmed this. Some of these firms are themselves highly leveraged and looking to sell parts of their own assets. "Even if banks agree to take substantial haircuts, both on equity and debt, with new PPAs remaining a big question, only power players who are sure they will be able to secure PPAs for these projects can emerge as buyers," said an industry representative on conditions of anonymity.

"Not many of the potential buyers currently are in a position to secure PPAs even for their own assets, therefore buying out other assets may take more than a year's time."

No buyer

Earlier this year, lenders were unable to find a strategic buyer for GMR Rajahmundry Energy Limited, a 768 MW gas-based combined cycle power project in Andhra Pradesh which has been under SDR since 2016, within a set deadline.

Leading power players Tata Power and Adani Power have not been able to offload stakes in their troubled thermal power projects in Mundra, Gujarat, despite offering 51 per cent stake at a token value of ₹1. Market experts believe the sale of such assets might turn out a difficult task because the debt often exceeds the enterprise value. "Unless the debt is restructured effectively, no equity value can be created," said an expert.

Several industry players, none of whom wished to be quoted, suggested that the main roadblock to selling the stranded power assets is the lack of optimism regarding State discoms' ability to sign new PPAs.

JPVL, for example, has seen its net loss widening to ₹760 crore against ₹294 crore in FY16. While the company sold two of its hydro power assets in FY17 to JSW Energy, which led to a drop in revenues, the remaining of 2,200 MW capacity, out of which 1,820 MW is thermal, has been performing poorly. This, according to JPVL annual report, is on account of frequent back down instructions from Madhya Pradesh's State Load Despatch Centre, non-availability of long-term PPAs, and non-availability of the corridor for the tied-up capacity coupled with low merchant power tariffs.

According to CRISIL, banks will require to take around ₹2.4 lakh crore haircut to clear up their balance sheets — this accounts for around 60 per cent of the value of top-50 non-performing assets across infrastructure and power sectors.

Project viability

"Power is one of the most stressed sectors and the issue is not going to get resolved quickly," Sameer Bhatia, CRISIL Infrastructure Advisory, told *BusinessLine* adding that PPAs and overall viability of some of the thermal power projects remain a question mark making it difficult to arrive at realistic valuations and haircuts. However, he added, once the first one or two deals with banks taking substantial haircuts go through, which may take 1 to 1.5 years, the other deals will start flowing too.

5. Follow uniform method in publishing death claims paid, IRDAI tells life insurers

G NAGA SRIDHAR

Life insurers will now have to be transparent in projecting death claim settlements in advertisements.

In a circular, the Insurance Regulatory and Development Authority said: "It has been observed that insurers are following different methods to arrive at death claims paid data (death claims paid ratios), while publishing them in insurance advertisements.

"In order to have uniformity across the industry, the life insurers should use or publish only annual figures of death claims paid ratios, based on the number of policies alone."

These figures should reflect the entire financial year and be based upon the latest IRDAI Annual Report or latest annual audited final figures submitted to the authority, the regulator said.

If an insurance advertisement contains death claims paid, then the data for individual and group policies shall not be clubbed together.

The advertisements for group products should reflect only group death claims paid, while individual products should reflect only individual death claims paid.

In case of advertisements promoting the company's brand without reference to products, only individual death claims paid should be used.

Settlements made

According to IRDAI's data, in 2015-16, life insurance companies had settled 8.54 lakh claims on individual policies with a total payout of ₹12,636.66 crore.

The number of claims repudiated or rejected was 15,157, amounting to ₹736.51 crore. The number of claims pending at the year-end was 6,031 and the amount involved was ₹444.23 crore. Of these, 1,189 claims were pending for less than and up to one year.

The claims settlement ratio of LIC was better than that of private life insurers. It had increased to 98.33 per cent during 2015-16 against 98.19 per cent in the previous year.

For private insurers, the settlement ratio had gone up to 91.48 per cent against 89.40 per cent in the previous year. The overall industry settlement ratio had increased marginally to 97.43 per cent from 96.97 per cent.

In the group life insurance, the total claims were 5,45,337, while 14,388 were pending.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY