



**ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION**  
(Affiliated to All India Bank Pensioners & Retirees Confederation – AIBPARC)

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Dear Comrades,

2nd August , 2018

### News of Interest 2nd AUG

#### MOTIVATIONAL QUOTES

‘A DREAM YOU DREAM ALONE IS ONLY A DREAM. A DREAM YOU DREAM TOGETHER IS REALITY. ‘ YOKO ONO

#### HIGHLIGHTS

- 1. RBI INCREASES REPO RATE BY 25 BPS TO 6.5%; RETAINS 'NEUTRAL' STANCE**
- 2. RBI ASKS PAYTM, FINO PAYMENTS BANKS TO STOP ENROLLING NEW CUSTOMERS**
- 3. IMPORTANT ALERT FOR HDFC BANK CUSTOMERS WHO USE MOBILE BANKING APP**
- 4. BANKS EXPECT RS 50,000 CRORE HAIRCUT UNDER AMC/AIF MODEL**
- 5. BANKS' LENDING, DEPOSIT RATES TO MOVE HIGHER**

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#### Business Standard

##### **1. RBI increases repo rate by 25 bps to 6.5%; retains 'neutral' stance**

The yields on the 10-year bond closed at 7.7%, lower than its previous close of 7.8%

Anup Roy

The Reserve Bank of India (RBI) on Wednesday hiked policy rates for the second time in a row on fears of rising inflation rates, and cautioned that India needed to “run a tight ship” to avoid getting affected by the currency war that had started all over the world.

Economists now expect the central bank to go in for a prolonged pause and wait to see the impact of the globally evolving scenario.

Following the rate hike, which was anticipated by many in the market, the policy repo rate stands at 6.50 per cent. The policy stance continued to remain neutral.

Except external member Ravindra Dholakia, the rest in the six-member monetary policy committee voted for a hike.

"We have to ensure that we run a tight ship and the risks that we control to maximise the chances of ensuring macroeconomic stability and continuing with a growth profile of 7 to 7.5 per cent," RBI Governor Urjit Patel said in the policy press conference.

"We do have things that are in our favour and if we continue along that path we ensure that we do not add to the global risk profile that will adversely affect us," the governor said.

The yields on the 10-year bond closed at 7.7 per cent, lower than its previous close of 7.8 per cent, whereas the rupee appreciated to close at a six week high of 68.43 a dollar, against its previous close of 68.55 a dollar.

Even as the RBI aims to keep consumer price-based inflation (CPI) anchored at 4 per cent (which is the middle point in the range 2-6 per cent), since November 2017 the CPI print has gone above that mark.

Publishing the inflation projection a year ahead for the first time, the central bank said it expected inflation to remain at 5 per cent in the first quarter of 2019-20.

In June this year, the CPI print came at 5 per cent too.

Since the transmission of monetary policy happens with a lag, the two rate hikes will take some time to work on inflation, said Viral Acharya, RBI deputy governor in charge of monetary policy.

The persistently high inflation level has clearly caused some nervousness in the minds of the MPC members. Patel acknowledged that as much in his post-policy conference.

"The main reason for changing the policy rate is to ensure that on a durable basis we come to and maintain the 5 per cent target, and we have been away from the 4 per cent number for several months now. We took two steps, once in June and once in August, to maximise our chances that we don't drift from the target and so that we move towards the 4 per cent mark on a durable basis," Patel said.

The RBI projected inflation at 4.6 per cent in the second quarter, and 4.8 per cent in the second half of the financial year 2018-19, with risks evenly balanced.

Excluding the HRA (house rent allowance) impact, CPI inflation is projected at 4.4 per cent in Q2, 4.7-4.8 per cent in H2 and 5 per cent in Q1, 2019-20.

According to Anubhuti Sahay, chief economist of Standard Chartered Bank, the RBI seeing inflation risks balanced was surprising because the central bank typically cautions risks being on the upside.

The recent increase in minimum support prices for kharif crops, "which is much larger than the average increase seen in the past few years, will have a direct impact on food inflation and second round effects on headline inflation," the central bank said.

The RBI factored in some of the MSP-related impact, but the incremental impact remains to be seen, the central bank said, adding the staggered impact of HRA revision by state governments would push headline inflation up.

The balanced risk also has prompted the central bank to carry on with its neutral stance even after two rate hikes.

"There is a fair bit of uncertainty around the CPI prints and therefore it was important that we kept our options open, depending on the prints coming over the next few months, given the volatility of the prints that seem to be coming most of the time," Patel said, adding the domestic inflation needed "careful monitoring".

Even as the recent global trade war and the resultant currency devaluation "raise some concerns, the "domestic economic activity has continued to sustain momentum and the output gap has virtually closed".

In the event of a currency war, the domestic currency gives in to depreciation pressure of the entire region. If the local currency depreciates, foreign investors are forced to liquidate their local holdings to minimise a currency hit. A rate hike by the central bank attempts to strengthen the currency by making the economy a better carry trade destination for foreign investors.

"The neutral stance accommodates upcoming domestic and external uncertainties, with regard to the impact of government's policies, oil price direction, trade disputes and impact on global growth and US rate trajectory. Until the December quarter, we expect the RBI to remain cautious, but on pause," said Radhika Rao, India economist for DBS Bank.

## **2. RBI asks Paytm, Fino payments banks to stop enrolling new customers**

Sources said the RBI wanted to check the eKYC process

[Karan Choudhury](#) & [Mayank Jain](#)

Launched in 2015 with great fanfare, India's payments banking ecosystem has taken a serious hit as the Reserve Bank of India (RBI) has halted two of the three existing payments bank from enrolling new customers.

Concerns over the eKYC, or electronically done know your customer process, as well as cases of more than Rs 100,000 being deposited in accounts, have caused the RBI to ask Paytm Payments Bank as well as Fino Payments Bank to halt inducting new customers for the time being.

Airtel Payments Bank, which was earlier asked by the nodal agency not to enrol new customers, got permission to resume the process last month.

Sources said the nodal agency over the past two months had been doing an audit of the two banks and would at the end of it ask them to be in shipshape condition before resuming customer enrolment.

Teething issues as well as fears of non-compliance have stalled the growth of payments banks. According to industry insiders, in the last two months these three banks have not been able to induct more than a few hundred customers owing to the audits conducted by the RBI.

Neither Paytm Payments Bank nor the RBI commented on the matter.

Sources said the RBI wanted to check the eKYC process. Vijay Shekhar Sharma-led Paytm Payments Bank in April said it had more than 100 million KYC wallets.

Concerns over the digital process of KYC and lack of paper trail are the reason the RBI has asked Paytm to halt enrolling customers.

"They managed to have over 100 million KYCs done in a short time. The RBI wants to check if all the right processes were followed and if there had been any discrepancies," said a source.

The RBI is doing an audit of all bank accounts to check which accounts have more than Rs 100,000. Banking sources said this anomaly had happened mostly in rural areas where banking correspondents have deposited more than the stipulated amount. The RBI wants the two banks to correct this issue.

"As per RBI's operating guidelines for payments banks the aggregate limit for customer in his/her bank account shall not exceed Rs 100,000. It was observed that a few Fino Payments Bank accounts had deposits in excess of this stipulated amount. In this context, RBI directed Fino Payments Bank to put in place appropriate process to address the operating guidelines on deposit limits in customer accounts," Fino Payments Bank said in a statement.

The payments bank added that in view of this development RBI has advised them not to open new accounts till the upgraded processes are in place. "Towards this directive, we are in the process of making the necessary product and technology changes," Fino Payments Bank further added.

The bank however continues to operate all existing accounts of customers. They are also permitted to open minimal KYC wallets. As such its existing customers continue to do banking transactions, deposits, withdrawal, money transfer, bill payments and third party offerings.

Fino had started with a base of 410 branches across 14 states, 25,000 banking points across the country and sees a little more than 15 million monthly transactions.

Airtel Payments Bank just restarted its customer on-boarding services, after it was directed by RBI in January to stop, after the apex bank found that the company was violating operating guidelines around KYC norms. In March, RBI had also imposed a fine of ~50 million on the company regarding violation of norms.

Three years since RBI gave out 11 payments bank licenses of which three — Cholamandalam Distribution Services, Sun Pharmaceutical and Tech Mahindra — surrendered their licences without starting operations. Of the rest, Reliance's Jio Payments Bank is running its beta tests, India Post has had a soft launch and is yet to start full operations.

## **Financial Express**

### **3. Important alert for HDFC Bank customers who use Mobile Banking App**

This is an important alert for you, if you use HDFC Bank Mobile Banking App

By: FE Online

This is an important alert for you, if you use HDFC Bank Mobile Banking App. According to a text message sent by HDFC Bank, the old app will stop working on 3rd August 2018 and will display network issue, hence the bank has requested users to update the app before 3rd Aug'18.

#### **Here is the full text of the message sent by HDFC Bank:-**

*"Important update about HDFC Bank Mobile Banking App! Please update the app before 3rd Aug'18. Our older app will stop working & will display network issue."*

Earlier, on July 31st, the Board of Directors of Housing Development Finance Corporation Limited (HDFC) had announced its unaudited financial results for the quarter ended June 30, 2018, following its meeting on Monday, July 30, 2018 in Mumbai.

#### **FINANCIAL RESULTS: Key points**

-The profit before tax, dividend and sale of investments for the quarter ended June 30, 2018 stood at Rs 2,484 crore compared to Rs 1,960 crore in the corresponding quarter of the previous year, representing a growth of 27%.

-For the quarter ended June 30, 2018, the Corporation received dividend of Rs 511 crore from HDFC Bank Limited, while in the previous year, dividend from HDFC Bank was received in the second quarter.

-The profit before tax for the quarter ended June 30, 2018 stood at Rs 3,070 crore compared to Rs 2,022 crore in the corresponding quarter of the previous year.

-The reported profit after tax before other comprehensive income as per Ind AS for the quarter ended June 30, 2018 stood at Rs 2,190 crore compared to Rs 1,424 crore in the corresponding quarter of the previous year, representing an increase of 54%.

## **Economic Times**

### **4. Banks expect Rs 50,000 crore haircut under AMC/AIF model**

By *Dheeraj Tiwari*

Banks expect a haircut of about Rs 50,000 crore under the proposed asset management company (AMC)/Alternate Investment Fund (AIF) model for resolution of stressed loans.

The non-performing loans of over Rs 500 crore are proposed to be resolved through this route. Total such NPAs are pegged at about Rs 3.6 lakh crore, of which Rs 3.1 lakh crore belongs to public sector banks.

According to two bankers aware of the deliberations, some lenders want further discussions through Indian Banks Association (IBA) on the proposal fearing it would dent their bottom line immediately.

The sale value to an asset reconstruction company could be much lower and banks may have to make adequate provisions and also raise capital to cover the provision, said managing director of one bank.

"There needs to be more clarity on how that capital can be raised and if there are other options besides seeking government support," said the banker.

The extent of provision would depend on how long the account has been non-performing asset (NPA). "So, if I'm selling a loan, which has been an NPA for say two years, my total provisioning would be around 25-30%. If on this I'm to take a haircut of say 60%, I will need to find money to cover the remaining portion," he said.

Reserve Bank of India norms dictate that banks have to make a provisioning of 15% in the first year, 25% in the second, and have to set aside 40% of the loan amount in the third year. Full provisioning is required thereafter. Under the existing RBI norms, provisions for accounts referred to the National Company Law Tribunal (NCLT) is at 40% of dues at the end of March of that year for secured loans, and 100% for unsecured portion.

Another banker said that unless there is a clear protection from the proposed overseeing committees (OC) in such deals, the decision making process may be difficult because of the likely deep haircut they may have to take. "I think IBA will also offer some clarity on the issue," he said.

## **Business Line**

### **5. Banks' lending, deposit rates to move higher**

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RADHIKA MERWIN

While the RBI has retained its neutral stance, risks to inflation leaves open the possibility of further rate hikes in the current fiscal

#### **BL RESEARCH BUREAU**

Banks that have been raising lending rates over the past six months—RBI's rate action or no—have been handed yet another reason to continue hiking rates. The RBI's latest move to increase its key policy repo rate—at which banks borrow short term funds from the RBI—by 25 basis points, will nudge banks to pass on rate increases to borrowers and depositors. While the RBI has retained its neutral stance, upside risks to the central bank's inflation forecast persists. As against the RBI's inflation projection of 4.8 per cent in the second half of FY19, we believe that CPI inflation could move to 5.2-5.4 per cent.

This leaves open the possibility of further rate hikes in the current fiscal, indicating further hardening of rates. Hence banks, taking cues from the bond market, will likely continue to hike lending rates ahead of the curve.

Already on the rise

Interestingly, it was in August last year, that the RBI had last cut its policy repo rate. But concerns over rising inflation and tightening of global liquidity had, uncannily, led to a sharp upmove in the yield on 10-year government bonds. Taking cues from the bond market, banks have been raising deposit and lending rates since January this year.

While deposit rates have gone up by 25-35 basis points on an average, a few banks have raised interest rates on specific tenure deposits by 60-75 bps.

Since deposit rate increases immediately reflect on banks' cost of funds under MCLR, hikes in lending rates have also been much quicker and sharper, than under the erstwhile base rate system. As such, banks have always been more nimble in passing on rate hikes to borrowers.

Banks' benchmark lending rate—one-year MCLR—has gone up by 20-25 bps on an average, to as high as 70 bps in a few banks over the past six months.

But despite such sharp increase, bank lending rates are still lower than what corporates would have to cough up, while raising money from the bond markets. Yield on AAA rated and AA rated bonds currently quote at 8.4-8.5 per cent and 8.8-9 per cent respectively. For many banks, in particular PSU banks, one-year MCLR is still below the 8.5 per cent mark. Hence, banks in any case had some leeway to increase lending rates. The RBI's recent hike, has only offered more headroom for banks to raise lending rates. Hence borrowers are likely to feel the pinch in the coming months.

There is one silver lining though—reset clauses under the MCLR structure. Unlike under the base rate system, where a revision in base rate was immediately reflected in lending rates of all loans benchmarked against it, under the MCLR-based pricing, lending rates are reset only at intervals corresponding to the tenure of the MCLR. Hence in the case of home loans, which are benchmarked against the one-year MCLR, lending rates will only be reset every year.

What for banks

Going by recent quarter results, increase in deposits rates that in turn bump up banks' cost of funds have added some pressure on banks' margins—YES Bank, IndusInd Bank and HDFC Bank to name a few. This could ease up, as the benefit of the hike in lending rates starts to reflect in banks' yield on advances, in the coming quarters. However, this is contingent on credit offtake and asset quality performance to a lot extent.

While credit growth has inched up notably in FY18 growing by about 10.3 per cent YoY, it is still below expectations and lags the overall growth in the economy. For banks with relatively higher exposure to stressed assets, the NPA recognition cycle is yet to bottom out. Sharp slippages and provisioning will continue to weigh on earnings. The rise in lending rates could only accentuate the bad loan issue. The first cut of India Inc. June earnings suggests a near 29 per cent YoY increase in interest cost for about 310 entities.

With kind regards,

Yours Comradely,



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