



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

163/4, Kutchery Road, Mylapore, Chennai - 600004

E mail i.d: aiubparf@gmail.com/ ubioatnng@gmail.com/ suryanarayananram@gmail.com

Com. P.B. Thomas Chairman Thiruvananthapuram M: 09447177456	Com. Nitin Desai President Ahmedabad M: 097277 60641	Com. S. Bagchi Working President Kolkata M: 0983081586	Com. N. Govindarajulu General Secretary Chennai M: 09841089111
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Dear Comrades,

12 th July , 2018

News of Interest 12th JUL

MOTIVATIONAL QUOTES

‘YOU ARE REMEMBERED FOR THE RULES YOU BREAK. ‘

DOUGLAS MACARTHUR

HIGHLIGHTS

1. WITH NO RELIEF FROM SEBI, LIC TO MAKE OPEN OFFER TO IDBI BANK SHAREHOLDERS
2. CBI BOOKS THREE MUMBAI COMPANIES FOR BANKING FRAUD AS SBI LOSES RS 1.36 BN
3. INDIA HEADING TOWARDS A SIGNIFICANT MILESTONE IN DIGITAL TRANSACTIONS; VALUE OF CARD USAGE AT POS NEARS RS 1 LAKH CRORE
4. MERGER OF 3 PSU NON-LIFE INSURERS MAY BE DELAYED
5. REPO IN CORPORATE BONDS LIKELY TO IMPROVE LIQUIDITY, INVESTOR APPETITE: CRISIL RATINGS

Business Standard

1. With no relief from Sebi, LIC to make open offer to IDBI Bank shareholders

LIC's name will be tagged to the lender's name as a part of rebranding

Somesh Jha

Insurance behemoth Life Insurance Corporation (LIC) of India will not be given any relaxation from the Securities and Exchange Board of India's (Sebi's) takeover code and will have to make an open offer to the stakeholders of state-owned IDBI Bank.

This will be in line with the norms set by Sebi, under which an acquisition of more than 25 per cent in a listed entity is termed as control and requires an open offer. IDBI Bank's stocks went up 9.05 per cent to close on the BSE at Rs 53.20 on Tuesday.

"LIC will make an open offer that will be in the best interests of minority stakeholders that have over 8 per cent shares in the IDBI Bank. The government will not participate in the open offer," a government official said.

Under this arrangement, the acquiring company must make an offer to existing shareholders to buy an additional stake in the company. It is aimed at providing the shareholders an exit option, as there may be a management change after acquisition and investors may perceive potential risks in the business.

Last month, the Insurance Regulatory and Development Authority of India approved LIC's plan to buy 51 per cent in IDBI Bank. At present, the government owns 80.96 per cent in IDBI Bank, while LIC holds 10.82 per cent. The open offer will be made to the remaining stakeholders, with 8.22 per cent, sources said.

The deal, which would lead to a cash infusion of around Rs 130 billion in IDBI Bank, will lead to a complete rebranding of the ailing bank. According to sources, LIC's name will be tagged to IDBI Bank, which will become a subsidiary of the former on the lines of LIC Housing Finance, LIC Mutual Fund, and LIC Pension Fund. The change in the bank's name will require the nod of the Ministry of Corporate Affairs.

TAKING STOCK

- Life Insurance Corporation (LIC) to make an open offer to IDBI Bank shareholders, according to Securities and Exchange Board of India norms
- Centre's stake will be diluted after LIC secures 51% stake in a preferential share deal
- IDBI Bank will be a subsidiary of LIC, on the lines of LIC Housing Finance, LIC Mutual Fund, LIC Pension Fund
- LIC's name will be tagged to the lender's name
- Internationally, insurance firms have promoted banks or have created a financial conglomerate through a holding company or a common group firm

"We have envisaged a scenario where the customer services are strengthened through a dedicated bank," said a senior government official.

Government officials have termed the deal a "win-win" for LIC and IDBI Bank. LIC will be able to reduce operating costs, diversify, and deepen distribution, create synergies between LIC's distribution network, and the bank's network, "fulfilling the objective of providing both insurance and banking solutions," the government official added.

The move will also help the bank access new funds as a result of payout of LIC claims, said an official. Internationally, insurance companies have promoted banks or created a financial conglomerate either through a group

company or a holding firm, the official said. Some of the examples are Prudential Financial (which owned Prudential Bank and Trust FSB), ING Group, and MetLife.

"Banks offer bancassurance for insurance companies, in the form of an efficient, low distribution cost network. In the absence of the same, a large insurer like LIC is at a significant competitive disadvantage," the official explained. Bancassurance is the selling of insurance products and services by banking institutions.

Finance Minister Arun Jaitley had announced the move to bring down the government's stake in IDBI Bank to below 51 per cent during his 2016 Budget speech. However, the trigger behind the latest move to allow LIC to increase its stake and not go for strategic disinvestment came last year. According to sources, SBI Caps, which was roped in to help the government with the strategic sales of IDBI Bank, had recommended against such a move due to "the prevailing market conditions" last year. The government also felt that the "current valuation of IDBI Bank was not reflective of its inherent value" and selling the bank to a private investor at this juncture may not have given the government the best value, officials said. IDBI Bank has a market cap of Rs 240 billion and owns real estate and non-core assets worth around Rs 70 billion each.

2. CBI books three Mumbai companies for banking fraud as SBI loses Rs 1.36 bn

Searches were conducted at 17 places in Mumbai, Raigad, Malegaon, Amravati, according to a CBI official

Press Trust of India

The CBI has registered three separate cases of banking fraud against three Mumbai-based companies for an alleged banking fraud that caused a cumulative loss of over Rs 1.36 billion to State Bank of India, officials said here today.

One of the cases is against Top Worth Pipes and Tubes Pvt. Ltd, its Directors Abhay Narendra Lodha, Shishir Shivaji Hiray, Harshraj Shantilal Bagmar, the then SBI officials AGM Thyagaraju Inamanamelluri, Deputy Manager Vilas Narhar Ahirrao, Deputy Manager, Madhura Mangesh Sawant for allegedly causing a loss of Rs 568.1 million to the bank, the officials said.

The second case was registered against Maheep Marketing Pvt. Ltd, its Directors Gajendra Sandim, Hemant Sanghvi and the three SBI officials for allegedly causing loss of Rs 499.9 million, they said.

The third case is against Harsh Steel Trade Pvt Ltd and its Directors Chetan Jitendra Mehta and Mahadev Ramchandra Shringare, the then officials of the SBI, AGM Jagdish Kulkarni and Deputy Manager Sadanand Girkar for allegedly causing loss of Rs 301.3 million.

"It was alleged that the said private companies enjoyed bill discounting facilities against the Letters of Credit issued by State Bank of India, D N Road branch and PM Road Branch, Fort, Mumbai."

"However, these bills were returned unpaid by the concerned banks, since it was observed that there were instances of diversion of funds and misrepresentations by the companies," CBI Spokesperson Abhishek Dayal said.

He said the internal enquiry by the bank also revealed irregularities such as raising multiple invoices, false lorry receipts showing incorrect vehicle registration numbers and vehicles other than heavy goods transport vehicles being shown as means of transportation.

Dayal said searches were conducted at 17 places in Mumbai, Raigad, Malegaon, Amravati including office and residential premises of the accused which led to recovery of "incriminating documents".

Financial Express

3. India heading towards a significant milestone in digital transactions; value of card usage at PoS nears Rs 1 lakh crore

Card transactions worth Rs 93,860 cr were recorded at PoS terminals, while the volume of such transactions was 466 million

By: Shritama Bose

The monthly value of debit and credit card transactions at point of sale (PoS) terminals inched closer to Rs 1 lakh crore in May, showed data released by the Reserve Bank of India (RBI) in its monthly bulletin for July 2018. Card transactions worth Rs 93,860 crore were recorded during May at PoS terminals, while the volume of such transactions during the month was 466 million. If card-based payments at PoS terminals cross the Rs 1 lakh crore-mark, it will be a significant milestone for digital transactions at physical stores and other merchant outlets. Though debit and credit cards are also used while making online payments to e-commerce platforms, RBI does not release data on that channel of card-based payments.

FE had reported last month that the volume of debit card transactions at PoS terminals bounced back to demonetisation levels in April this year, according to RBI data. The April figure on debit card usage marked a recovery over the first few months of 2018, when a number of factors converged to give rise to a major cash crunch in parts of India. One of these was the scaling back of PoS networks by some banks and a resultant spurt in cash-based transactions.

Cards have been the primary mode of merchant payments over the years in India, but the introduction of mobile wallets, Unified Payments Interface (UPI) and Aadhaar-enabled Payment System (AePS) in the last few years have offered other options to consumers for making digital payments.

Mobile wallets clocked 326 million transactions worth Rs 14,239 crore in May; UPI's tally for the month was 189.5 million transactions worth Rs33,288.51 crore. Transactions made through wallets and UPI include both peer-to-peer (P2P) and peer-to-merchant (P2M) transfers, and are therefore, not strictly comparable to card payments at PoS terminals. AePS is yet to evolve as a widely-used means of making financial transactions as banks and other players in the payment ecosystem continue to debate knitty-gritties, such as the interchange on such transactions.

Experts say that part of the reason for banks favouring cards over other payment channels was the differential regime for merchant discount rate (MDR), which skewed the market in favour of cards. In a note published in February, Credit Suisse said. "We believe the slower pick-up in UPI is partly because of the unfavourable economics for banks on UPI vs PoS. Till recently, the fees earned on UPI transactions were lower than debit card MDRs—making UPI relatively unattractive for banks."

MDR is the fee paid by a merchant to the bank that offers it the infrastructure to accept digital payments. Typically, MDR on debit card transactions were pegged at 75-100 basis points (bps), as against a 25-65 bps range for UPI transactions. The RBI has now mandated a drop in MDR and for small merchants, with debit card fees being capped at 40 bps for them and at 90 bps for larger merchants.

Economic Times

4. Merger of 3 PSU non-life insurers may be delayed

By *Mayur Shetty*

The merger of the three state-owned non-life insurance companies — National Insurance, Oriental Insurance and United India Insurance — is likely to be taken up only under the next government. The Centre has shortlisted chief executives for the three firms and has sought interest from consultants for advice on the merger.

According to industry insiders, the move to appoint chief executives for the individual firms is an indication that the Centre is not in a hurry to merge them. The government had originally indicated that it would like to complete the process by March 2019.

The Centre recently completed the interview of 10 candidates for the CEO positions. These include New India Assurance GMs Hemant G Rokade and Tajinder Mukherjee, and Oriental Insurance Company (OIC) GM Atul Sahai. There are three candidates from the Agriculture Insurance Company (AIC) — Malay K Poddar, Rajeev Chaudhry and Avinanda Ghosh. Additionally, GIC Re GM Dinesh Waghela, and New India GMs Siddharth Pradhan & Girish Radhakrishnan were also part of the shortlist.

While presenting the Union Budget in February this year, finance minister Arun Jaitley had announced his intent to merge the three companies. The merger was to be a precursor for government disinvestment in the non-life companies, which would then be listed on the stock exchanges. Besides divestment, one of the reasons for the merger was that two of the non-life insurers were financially weak. The merger would, however, require amendment of the General Insurance Business Nationalisation Act, 1972.

While July 16 has been fixed as the last date for receipt of expression of interest from consultants, the government is yet to announce the date for final presentation. Given that the consultants will have to analyse the business network, the products and the IT systems of the three companies headquartered in Delhi, Kolkata and Chennai, the final report is expected to take several months.

The three companies are understood to be running disparate systems. Last year, Oriental Insurance awarded a contract to Hewlett Packard to implement Sirius 4 Insurance (S4I) centralised core insurance application.

National Insurance runs a core insurance solution from a Chinese company eBaotech Corporation.

Business Line

5. Repo in corporate bonds likely to improve liquidity, investor appetite: Crisil Ratings

OUR BUREAU

The electronic platforms for tripartite repurchase agreements (repo) in corporate bonds launched by the National Stock Exchange and the Bombay Stock Exchange are expected to improve the liquidity of, and investor appetite for, these securities.

According to Crisil Ratings, typically, repos facilitate swift conversion of bonds into cash, which helps investors manage liquidity without having to sell, and thus improve liquidity.

Repo is a money market instrument, which enables collateralised short-term borrowing and lending through sale/purchase operations in debt instruments. Under a repo transaction, a holder of securities sells them to an investor with an agreement to repurchase at a predetermined date and rate.

The credit rating agency, in a statement, said investors such as mutual funds, primary dealers, banks and insurers can use corporate bond repos to manage liquidity and asset-liability mismatches. Mutual funds can manage redemptions and secure short-term cash investments.

Insurers can start investing more in corporate bonds as they will be able to optimise asset-liability management and duration better through repos without having to sell from their bond portfolios, it added.

The agency elaborated that repos collateralised by high-quality corporate bonds will be a valuable tool for risk-averse end-investors to park temporary cash balances. It will also be another avenue for banks to deploy surplus liquidity. The basket repos introduced include only select 'AAA' category bonds, 'A1+' rated commercial papers and certificates of deposit.

"Globally, repos play a critical role in imparting liquidity to corporate bonds, which typically suffer from lower trading ratio relative to government securities. Repos will also play a critical role of lowering the cost of market-making and that, in turn, should enliven market-making in the secondary market," said Somasekhar Vemuri, Senior Director, Crisil Ratings.

In the absence of repos, market makers need to hold a large inventory of bonds to provide liquidity to the secondary market. This raises the cost of market-making and hampers the role of market makers, said the agency.

Globally, corporate bonds are not traded heavily because investors tend to hold them till maturity. For instance, the trading ratio (daily traded volume divided by outstanding amount of corporate bonds) is just 0.27 per cent in India, 0.12 per cent in China, 0.19 per cent for South Korea, and 1.16 per cent for the US. Higher liquidity in the US is supported by a strong repo market worth \$2.3 trillion. Of this, about 45 per cent employ non-government securities as collateral.

Ramesh Karunakaran, Director, Crisil Ratings, said, "Over the medium term, the expansion of basket repos to include AA category bonds, in line with the RBI directions, will help deepen the liquidity for AA rated papers as

secondary trading in AA rated papers constitutes only one-fifth of the corporate bond trading volumes.

“Overall, success will be a function of interest shown by banks, primary dealers, NBFCs, financial institutions, mutual funds, insurers, and housing finance companies.”

The RBI had introduced repos in corporate bonds way back in 2010, but the response has been lukewarm because of non-availability of guaranteed settlement and an electronic dealing platform.

Based on the H R Khan Committee recommendations, the agency, said a series of measures were implemented in the past two years to improve the depth of the domestic corporate bond market. An electronic market platform with guaranteed settlement for repos was also one of the suggestions.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY