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Dear Comrades,

24th October, 2018

News of Interest 8th NOV

MOTIVATIONAL QUOTES

'WITH THE NEW DAY COMES NEW STRENGTH AND NEW THOUGHTS'.

ELEANOR ROOSEVELT

HIGHLIGHTS

1. NPA IN INDIA: RBI NEEDS BASEL NORMS AS ITS DEFAULTS ARE HIGHER
2. RBI'S DIWALI GIFT TO INFRA FIRMS: MIN ECB HOLDING PERIOD PRUNED TO 3 YEARS
3. DIGITAL ASSISTANTS, SOCIAL MEDIA TO BE PRIMARY CHANNELS FOR BANKING BY 2022
4. ARE BANKS FINALLY FINDING THEIR FEET AFTER A DECADE OF HURT? SEE THESE SIGNS
5. IDBI BANK BUY: HC DIRECTS SEBI TO EXAMINE COMPLAINT AGAINST LIC

Financial Express

1. NPA in India: RBI needs Basel norms as its defaults are higher

Unless the govt has very good data to show RBI's estimates on default risk are incorrect, it should just let the regulator do its job. The government believes RBI's prescribed CRAR of 9%, as compared to the 8% as required by the Basel norms, is too high

By: The Financial Express

Given how non-performing assets at state-owned lenders have ballooned to more than 10% of their total advances, and the precarious financial positions of at least 11 lenders, it is surprising the government wants capital adequacy norms prescribed by RBI to be diluted. Specifically, the government believes RBI's prescribed CRAR of 9%, as compared to the 8% as required by the Basel norms, is too high. It might seem an unnecessary cost at this point but it is actually an investment to keep a crisis at bay. While it is true that banks are now

following stricter provisioning norms for stressed assets as compared to what they were doing earlier, it is nonetheless necessary for them to set aside more capital than their counterparts in other countries. That is because, as RBI deputy governor NS Vishwanathan, has explained, the losses tend to be higher in India.

To be sure, there is some improvement post the IBC (Insolvency and Bankruptcy Code) and the rollout of RBI's revised framework for stressed assets. Nonetheless, Vishwanathan has argued that, given the kind of default behaviour observed in India, applying the Basel-specified risk weights would understate the risk levels of the assets on banks' books. Studies show the probability of a non-default rating—assigned by the credit rating agencies—turning into a default rating within a certain period of time is higher in India. Also, the track record of ratings agencies leaves much to be desired, as can be seen from the recent case of IL&FS where the company was rated default almost overnight. So, relying on credit rating agencies would probably not be wise. As Vishwanathan points out, a smaller capital base only makes banks more vulnerable to defaulting on their obligations in the event of unexpected losses. Adequate levels of capital need to be maintained and the higher the capital, the more the skin in the game for shareholders.

Potentially, this results in better appraisal of credit and screening. Indeed, until the Asset Quality Review (AQR) was initiated in Q4FY16 by RBI, stressed assets were not classified properly and consequently hugely under-provided for. The upshot was an increase in loans by banks which did not have the required levels of capital and 11 of these needed to be brought under the prompt corrective action (PCA) framework. The government must understand how precious capital is—and this is entirely the taxpayers' money—and that it cannot simply be frittered away. Since 2005, the government has needed to infuse more than `2.3 lakh crore in PSBs, more than half of which has gone into banks under the PCA framework. Had the capital adequacy norms been tighter all these years, things might not have come to such a pass. It is understandable that the government should want more credit growth in the system, and to that extent, the PCA norms look like they are hindering credit growth; and, after the IL&FS debacle which has hit lending by NBFCs, this growth will be further constrained. But, as the credit growth data shows, the larger banks—including the privately-owned ones—have raised their lending and, as a result of this, India's overall bank credit growth is quite robust. Unless the government has very good data on the probability of default behaviour in India being much lower than what RBI says, it simply has to let the regulator do its job. And since this results in banks remaining solvent, the Central government should want this even more than RBI.

Business Standard

2. RBI's Diwali gift to infra firms: Min ECB holding period pruned to 3 years

This follows a meeting chaired by Prime Minister Narendra Modi in September to review the prevailing economic issues

BS Web Team

In a major relief to Indian companies and banks, the Reserve Bank of India (RBI) on Tuesday reduced the minimum average maturity requirement for ECBs raised by eligible borrowers in the infrastructure space, from five years currently to three years.

The RBI explained, ECBs with minimum average maturity period of three to five years in the infrastructure space will have to meet 100 per cent mandatory hedging requirement.

The central bank further clarified that ECBs falling under the aforesaid revised provision but raised prior to the date of this circular will not be required to mandatorily roll-over their existing hedges. This follows a meeting chaired by Prime Minister Narendra Modi in September, in which the government had said that mandatory hedging condition for infrastructure loans would be reviewed.

On October 3, the RBI allowed the OMCs to raise dollars directly from overseas markets without a need for hedging, after which, state-run oil-marking companies decided to raise around \$1.4 billion in the first tranche.

In its notification, the central bank said the minimum maturity profile of the borrowings should be three years and five years, and the overall cap under the scheme would be \$10 billion.

3. Digital assistants, social media to be primary channels for banking by 2022

The greatest impact of transformation is expected to be in the areas of payments, mobile wallets and lending in the next three years

Press Trust of India

Digital assistants, social media and third-party channels are expected to be the primary channels for banking by 2022, apart from mobile and online, a report said Wednesday.

"After existing digital channels (mobile and online), digital assistants, social media and third-party channels are expected to be the primary channels for banking by 2022," as per the 10th annual 'Innovation in Retail Banking' report.

The report was launched Wednesday by Infosys Finacle, part of Edge Verve Systems (a product subsidiary of Infosys) and Efma, a global not-for-profit organisation.

According to the report, close to half of the respondents believe that less than 40 per cent of the current workload would move to public cloud by 2022 and 70 per cent say that artificial intelligence (AI) is expected to have a significant impact in transforming customer service/support by 2022.

The research, in which over 300 banks participated globally, found that respondents see open banking APIs (application programming interface) as the top technology for the future of innovation, with it being stronger than 'emerging' areas such as machine learning, chatbots and RPA (Robotic Process Automation).

In the short term, banks will leverage open banking for compliance such as the Payment Services Directive (Europe), Unified Payments Interface (India) and New Payments Platform (Australia), it said.

The research also found that overall, organisations are taking a strategic perspective on the need for innovation ROI (return on investment). In 2017, 31 per cent of firms had an innovation ROI perspective of one year,

compared to only 17 per cent this year. In addition, 63 per cent looked for an ROI in 1-3 years as opposed to 54 per cent in 2017.

Respondents believe that retail banks consider digital commerce platforms (such as Alibaba) and technology giants as the innovation leaders for 2022. Similar to previous years, the greatest impact of transformation is expected to be in the areas of payments, mobile wallets and lending in the next three years.

Vincent Bastid, CEO, Efma said, "In recent years, banking institutions have been facing disruption head-on, with advancements in customer service, personalization and mobile applications through a combination of Open APIs, AI and machine learning."

Sanat Rao, Chief Business Officer and Global Head, Infosys Finacle said, "The 10th edition of the Innovation in Retail Banking report strongly illustrates the pace at which the traditional banking model is evolving. The need to invest in a solid platform strategy focused on business benefits and more compelling experiences for customers, employees and partners is central to remain competitive.

Economic Times

4. Are banks finally finding their feet after a decade of hurt? See these signs

Challenges with regards to lending to non-banking finance companies and exposures to debt-laden companies such as IL&FS could play spoilers, analysts say

By Joel Rebello

Large corporate-focused lenders that bore the brunt of rising NPAs for the better part of last decade are showing signs of sustainability, analysts say. Higher recoveries from bad loans and a slowdown in new NPA creation are likely to make profits more durable, they say.

ICICI Bank, Axis Bank NSE -0.10 % and State Bank of India (SBI NSE 0.03 %) have cleaned up their books and are poised to see better days ahead, helped by their wide reach, superior liquidity and better quality loan book. However, challenges with regards to lending to non-banking finance companies and exposures to debt-laden companies such as IL&FS could play spoilers, analysts say.

"These banks are poised to gain double benefits -- one from their shift towards a better quality loan book, which will improve asset quality, and second, from the higher recoveries and provision write backs that will help profit and loss accounts directly," said Darpin Shah, an analyst at HDFC Securities.

Shah prefers private sector lenders ICICI Bank NSE 0.79 % and Axis Bank over state-owned SBI. "ICICI is relatively cheaper because it has a well-diversified group with access to a gamut of financial products still not factored in by its valuation. Axis Bank too is better placed now with the

entry of a new CEO who has proven his execution skills and is adept at using technology for the benefit of the organisation," he said.

Last week, Axis Bank's second quarter net profit increased to Rs 790 crore from Rs 432 crore from a year ago. More importantly, slippages declined to Rs 2,777 crore -- down 69% year-on-year indicating an improvement in credit quality for the private sector lender.

Similarly, ICICI Bank swung back to a profit after a historic loss in the quarter ended June 2018, led by strong loans growth even as uncertainty over the future CEO ended during the quarter. Gross additions to NPAs at Rs 3,117 crore was the slowest addition in NPAs in 12 quarters and provision coverage ratio improved to 69.4% from 66.1% at the end of June. ICICI's price to book has improved to 2.11 from 1.93 three years ago, while Axis Bank's ratio is coming back to its 2.47 peak three years ago at 2.43 currently, indicating renewed investor interest.

Only SBI's price to book has hovered around 1.24 currently down from 1.38 three years ago. Purvesh Shelatkar, senior vice president at Centrum Broking, said better macro-economic prospects and favourable court order for power companies have also improved the prospects for large corporate lenders. "We are seeing a revival in sectors like steel and textile. The other large chunk of nonperforming assets from power is also on the mend after the Supreme Court order allowed power producers to renegotiate their agreements.

All these arguers well for these large lenders. However, there are still some problems lurking with regards to lending to NBFCs and stressed companies like IL&FS," Shelatkar said. Late last month, the Supreme Court allowed three power projects run by Adani Power, Tata Power and Essar Power to renegotiate their power purchase agreements (PPAs) to reflect the higher cost of imported coal.

Power discoms in Maharashtra, Rajasthan, Punjab and Haryana have signed PPAs with Adani Power, Tata Power and Essar Steel. However, the pressure on state owned banks to lend to NBFCs could pose problems as these lenders are known to accumulate bad assets which private sector lenders avoid. On Monday, SBI said it had swung to a profit after three consecutive quarters of losses led by growth in interest income and lower provisions.

Analysts though point out that the bank has not made the mandatory 100% provision for a large loan to Essar Steel and taken a whopping one-time gain of Rs 1,087 crore from the sale of investments in its general insurance business and transfer of the merchant banking business to a subsidiary.

Exposure to IL&FS and bailouts of NBFCs will also weigh on the bank's valuations. However, the recovery of credit cycle and lower slippages from the corporate pool have enthused some analysts. "We expect slippages to moderate further in 2HFY19, while the resolution of stressed power assets remains an important event to watch for in the near term (66% of power assets are rated A- or above). We increase our FY19 projections by 11%, while our FY20 earnings estimates stand largely unchanged – we expect RoA/RoE to improve to 0.6%/11.4% by FY20," said Motilal Oswal in a note.

Business Line

5. IDBI Bank buy: HC directs SEBI to examine complaint against LIC

Petition seeks direction to life insurer to offer ₹76.77/share against ₹61.73

K RAM KUMAR

The Delhi High Court has directed the Securities and Exchange Board of India (SEBI) to take on board a minority shareholder's petition that the Life Insurance Corporation of India (LIC) should be asked to offer a price of ₹76.77 per share, instead of ₹61.73, to acquire IDBI Bank's shares. The court has asked the regulator to consider the plea as a complaint and take appropriate action.

According to the order, which was passed by the Court on November 2, the market regulator is required to take action within two weeks.

Open offer

LIC will make an open offer for acquiring 2,04,15,12,929 fully paid-up equity shares of face value of ₹10 each, representing 26 per cent of the fully diluted voting equity share capital of IDBI Bank, from the bank's shareholders. This offer, at a price of ₹61.73 per share, is in connection with the life insurance behemoth's plan to take a 51 per cent controlling stake in the bank.

At ₹61.73 apiece, LIC will pay ₹12,602 crore to mop up 204 crore equity shares of IDBI Bank, which was placed under the so-called prompt corrective action framework by the RBI in May 2017, in view of the high non-performing assets and negative return on assets. However, if SEBI finds merit in petitioner Satish Gogia's contention, the life insurer will have to shell out ₹3,071 crore more to buy the bank's shares.

Gogia filed a petition praying that LIC be directed to offer a price of ₹76.77 per share as computed on July 18/August 8, 2018; according to him, those are the dates on which the life insurer had agreed to acquire further shares in IDBI Bank.

Concern over investment

Market experts have expressed concern that LIC is putting policyholders' money on the line by seeking to acquire a majority stake in IDBI Bank. The government-owned bank is grappling with a huge pile of bad loans, which stood at about 31 per cent of gross advances as of June-end 2018, and has posted big losses in the last three financial years beginning FY2016.

They say that the RBI and the insurance regulator will need to tackle issues arising from a possible breach of prudential exposure limits due to the joint exposure of LIC and IDBI in various sectors and industries. As of September-end 2018, the government and LIC owned 85.96 per cent stake and 7.98 per cent stake, respectively, in IDBI Bank.

Justice Vibhu Bakhru, in his order, observed: "The petitioner's contention is that LIC and IDBI Bank have violated the provisions of SEBI's Substantial Acquisition of Shares and Takeover Regulations, 2011, thereby benefiting LIC. Admittedly, the petitioner has an alternative remedy of filing a complaint before SEBI."

The order further said: "The learned counsel for SEBI states that the complaint, if any, made by the petitioner would be examined and the necessary decision would be taken. In view of this statement, no further orders are required to be passed in this petition, except to direct that SEBI treat the present petition as a complaint and take an appropriate decision within a period of two weeks from today."

Justice Bhakru said that if the petitioner felt aggrieved by SEBI's decision, he would be at liberty to avail of such remedies as are available in law.

Tendering of shares under the open offer begins on December 3 and closes on December 14.

With kind regards,

Yours Comradely,



(**N. GOVINDRAJULU**)
GENERAL SECRETARY