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Dear Comrades,

12th October, 2018

News of Interest 12th OCT

MOTIVATIONAL QUOTES

“WHENEVER YOU FEEL LIKE CRITICIZING ANY ONE... JUST REMEMBER THAT ALL THE PEOPLE IN THIS WORLD HAVEN'T HAD THE ADVANTAGES THAT YOU'VE HAD”

F. SCOTT FITZGERALD

HIGHLIGHTS

1. RBI FIRM ON DATA LOCALISATION; 80% OF FIRMS TO COMPLY BY OCT 15 DEADLINE
2. SBI GEN INSURANCE BETS ON CYBER PROTECTION, EYES 30% JUMP IN PREMIUM INCOME
3. THE COLLAPSE OF IL&FS AND WHAT IT TELLS US ABOUT FIXING INDIA'S CRITICAL NEED FOR INFRASTRUCTURE FINANCE
4. NBFCS NEED TO STRENGTHEN RISK MANAGEMENT FRAMEWORK: ASSOCHAM
5. BANK OF BARODA CHIEF'S TERM EXTENDED BY ONE YEAR

Business Standard

1. RBI firm on data localisation; 80% of firms to comply by Oct 15 deadline

Despite a suggestion from the finance ministry to allow data mirroring instead of exclusive storage, the RBI did not budge

Nikhat Hetavkar

The Reserve Bank of India (RBI) will stick to its data-localisation directive and the October 15 deadline to comply with it, the central bank strongly communicated in a meeting with payments services providers on Wednesday.

This comes as a major blow to global firms engaged in active lobbying to water down the RBI's diktat. Most of these are now understood to have presented their plans for a full compliance, effective October 16.

Out of 80 payments services providers that were told to store data locally, and not mirror it outside India, 64 said they were ready with local data storage. The fully compliant ones include global majors such as Google, Facebook (with its subsidiary WhatsApp), Amazon, and Alibaba.

The remaining 16 companies, including major card companies, pleaded that they needed more time to comply, as the central bank was not in a mood to allow any leeway.

The RBI, sources said, told these errant companies that six months were more than enough to develop the infrastructure. And, in case they were still not ready, these firms must rent out an India-based cloud and store their data temporarily while working on building the required infrastructure.

In any case, customers will not be inconvenienced as services move to a cloud for the time being, said payments services providers. Migrating to a cloud can be done relatively easily and in a day or two, said experts.

However, it is also likely that the belligerent companies have their own Plan B ready in case the RBI did not entertain their request.

It is not that all foreign companies are transferring their data overseas. SWIFT India, for example, is one of the first few foreign companies to store data exclusively in India, creating two mini-models of their global data centres. The same can be followed by others in India.

"We have clearly communicated to all our clients that if they want to use our messaging system, the data has to be stored locally," said SWIFT's India Chief Executive Officer Kiran Shetty.

No company said they will not comply, but that they were at various stages of compliance, said a person present at the Wednesday's meeting.

While the RBI insisted on an "unfettered supervisory access", of data to ensure better monitoring, there could be much more in its stance. Sources say the central bank is preparing the ground for a stringent Data Protection Bill, a draft of which was released by the Justice Srikrishna Committee in August.

"Data is the new oil and the regulator does not want other countries to store Indian data," said a payments executive, who did not want to be named.

Business Standard had earlier reported that major US multinationals had sought the help of the US Treasury to ensure that local data storage norms are watered down. Despite a suggestion from the finance ministry to allow data mirroring instead of exclusive storage, the RBI did not budge. It did not respond to an email sent to it.

Visa refused to comment while emails sent to Mastercard and American Express remained unanswered.

"Data localisation would require them (card companies) to create a lot of processes, hire people, and employ higher resources. They will also have to manage the impact on their existing risk-management framework," said a senior payments industry executive. He added the larger the company, the more difficult it was to rework the processes in place.

Various global firms, including Google and Mastercard, were initially vocal about their opposition to data localisation and said they believed in the open flow of data between countries.

The companies that do not have a data centre in India raised concerns about the difficulty of acquiring such a facility locally.

While payment players have been vocal on needing more clarity on the RBI's data-localisation directive, the central bank said the directive does not need any clarity.

On Tuesday, executives of global payments companies had said they were still hoping for a deadline extension. A source said the companies wanted to understand what would be the RBI's action if they are not compliant within the deadline. They were initially hoping for a slap on the wrist by way of penalty for non-compliance.

It is still unclear what could be the RBI's action on companies that fail to comply with its requirements within the deadline. However, neither the central bank nor the card companies would allow any disruption or risk-creating panic among customers, said a payments executive.

While the non-compliant global companies may temporarily comply with the RBI's regulations, they are likely to continue challenging the data-localisation norms, said a source.

DATA DIKTAT

- RBI refuses to extend October 15 deadline on data localisation
- The central bank refuses data mirroring
- RBI cites impending data protection law as key reason
- 64 of the 80 affected companies say they are now fully compliant
- Google, Facebook, Amazon, and Alibaba are among firms which have complied with the directive; card companies seek more time
- RBI suggests using cloud storage for those that are still not ready

2. SBI Gen Insurance bets on cyber protection, eyes 30% jump in premium income

Firms in which IP is critical, such as pharma and research and knowledge-based organisations, were taking the lead in seeking cyber covers to protect their computer systems from hack attacks

Virendra Singh Rawat

The domestic cyber insurance market is slowly gaining traction, with India bracketed alongside the US and China as among the world's most cyber attack-prone countries.

"Although the cyber insurance market is still miniscule, Indian corporates have started to show interest in such products and have realised the

prospective threats emanating from cyber hacking," SBI General Insurance managing director and CEO, Pushan Mahapatra, told *Business Standard* in Lucknow.

He said companies in which intellectual property played a key role, such as pharmaceuticals and other research and knowledge-based organisations, were taking the lead in seeking cyber insurance to protect their computer systems from getting hacked.

According to reports, the country's cyber insurance space is still under Rs 1 billion in underwritten premium. In comparison, the global cyber insurance premium kitty runs into billions of dollars, with the US companies accounting for the bulk of these transactions.

He claimed the cyber insurance segment would continue to grow in such an environment where digital technologies continued to evolve, posing multiple challenges to protecting IP, databases and other confidential information from cyber delinquents.

Cyber insurance is being taken to safeguard against cyber hacking, which stems from a variety of factors, including inherent defects in the IT infrastructure of the insured company.

SBI General Insurance is eyeing total premium income of almost Rs 45 billion during the current fiscal, up from about Rs 35 billion last year. He said the company was growing at almost 30 per cent, which was twice the industry's growth rate of 15 per cent.

In Uttar Pradesh, the company collected Rs 2.57 billion in net premium for 2017-18, with motor insurance contributing as much as 40 per cent of the portfolio. UP is the fifth-largest general insurance market in India, after Maharashtra, Karnataka, Tamil Nadu and Delhi.

SBI General Insurance services the state through 10 branches in all major cities, apart from over 2,350 State Bank of India (SBI) branches. It has a network of 300 insurance agents and 170 brokers in the state, Mahapatra informed.

The Indian general insurance market in India stood at roughly Rs 1.5 trillion at the end of March 2018. "Due to the lack of awareness and public outlook, general insurance penetration is quite low and is pegged at about one per cent, which is even lower than 3.5 per cent in the life insurance space," Mahapatra said.

State Bank of India had recently announced the sale of four per cent equity in SBI General Insurance to Axis Asset Management Company (AMC) and Premji Invest for Rs 4.81 billion as part of a pre-offer valuation exercise by the insurer ahead of its proposed initial public offering (IPO) in March 2019.

SBI General Insurance is a joint venture (JV) between SBI and Insurance Australia Group (IAG). After the stake sale, SBI's stake in the JV stands reduced to 70 per cent, while IAG holds its 26 per cent stake.

Financial Express

3. The collapse of IL&FS and what it tells us about fixing India's critical need for infrastructure finance

India has a long way to go in structuring and managing public private partnerships. Doing a better job on that front is essential

By: Nirvikar Singh

The collapse of Infrastructure Leasing and Financial Services (IL&FS) highlights India's biggest economic problem—how to finance large, necessary investments needed for sustained economic growth. In my last column "What ails the Indian economy?" (FE, October 3; <https://goo.gl/LQ4NMS>), I discussed some ways of addressing this problem, including better regulation, improved corporate governance, and more competition. These points need further elaboration.

But before discussing fixes, it is important to understand the gravity of the issues. There are two points to be made.

First, the systemic problems created by the failure of firms like IL&FS, even if there is a "successful" bailout, damage growth prospects for years. Public money spent on a bailout is unavailable for other welfare-enhancing expenditures. Furthermore, as we have already seen with bad loans by banks, private lending is adversely affected by such events, possibly for years.

Second, while we might think that a lack of basic education and health services is the biggest problem for a country like India, many of the shortfalls in the delivery of such services are created or aggravated by lack of infrastructure. Farmers cannot access markets adequately without good roads; students often cannot get good teachers, something digital infrastructure can overcome; urban sanitation infrastructure is critical for public health. The last of these examples is particularly significant: only one-third of urban sewage is treated, and the country's rivers and groundwater are being irretrievably polluted, presaging a massive public health problem of disease and malnutrition.

Poor corporate governance and lack of adequate regulation for monitoring systemically important firms—as IL&FS clearly is—are obvious culprits. These problems are not unique to India. They have caused problems in advanced economies, particularly the United States, in recent decades.

Another cause is less obvious. It seems that IL&FS has an extraordinarily complex corporate structure, with well over 100 subsidiaries. This kind of complexity makes it difficult to understand what is truly going on. Corporate boards, regulatory monitors and even auditors have difficulty in such circumstances. This means that problems can be hidden until they explode. This happened in the case of IL&FS. A related kind of complexity helped destroy Lehman Brothers in the United States ten years ago: there it was the asset portfolios of the company that were poorly understood.

A solution to this complexity is not easy, and it is easy to over-regulate. The best approach is forcing as much disclosure and transparency as possible. Complexity of corporate structure and of asset portfolios can be counteracted by requiring more disclosure. Companies can argue that this will expose their strategies unduly, but that must be balanced against the public interest. One might argue that good managers will make sure that

they understand what is going on in their firms. But if there are inadequate penalties for failure, corporate leaders can be far from ideal in their actions: we learned that with Lehman Brothers a decade ago, and are learning the same lesson over again with IL&FS now.

Transparency and disclosure will also help markets work better. IL&FS was tapping bond markets while hiding its problems, so clearly lenders did not have an accurate picture of the company's financial position. Nor did the rating agencies, which gave the company AAA ratings, seem to know what was going on.

There is one more issue that we need to remind ourselves of, namely, kleptocracy. Corporate leaders, rating agencies, politicians and others may have an interest in hiding problems. Public ownership and influence can distort incentives and decision making. This has been a common problem in public sector banks, and was true for IL&FS. It has been suggested that at least one project in Gujarat was being funded to please the ruling party, and not on the basis of economic analysis. Of course, this reminds us of the basic problem once more—infrastructure projects are difficult to assess in terms of risks and returns. Some of these projects also have non-financial benefits that are difficult to quantify. But that tells us that one needs greater clarity in defining the objectives of firms such as IL&FS—this is a kind of complexity not present for purely private sector firms such as Lehman Brothers.

To summarise, if India is going to proceed with the kind of infrastructure investment it needs for sustained high growth, several policies need attention. One is better regulation of corporate structures, combined with greater disclosure and transparency and stronger corporate governance. Second, a clearer separation of public and private is needed, rather than the muddied links and ownership structures that now exist. For some kinds of products and services, such as air travel, there is little or no case for public involvement in ownership and management. But many kinds of infrastructure (like urban sanitation) do not lend themselves to purely private ownership and operation. But India has a long way to go in structuring and managing public private partnerships (PPPs). Doing a better job on that front is essential. Third, if the institutional framework can be strengthened, greater entry and competition can generate the financing necessary for India's infrastructure needs.

Economic Times

4. NBFCs need to strengthen risk management framework: Assocham

Risk management is paramount for NBFCs, given the implications on the ability to successfully raise funds from the market

PTI|

MUMBAI: With the recent regulatory changes and the government's initiatives altering the operating mechanism, a report Thursday suggested that there is a need for non-banking financial companies (NBFCs) to strengthen their risk management framework.

Risk management is paramount for NBFCs, given the implications on the ability to successfully raise funds from the market and potentially enlist on secondary markets through an IPO in the medium to long term, the joint report by Assocham and PwC said.

"With recent events increasing the scrutiny on NBFCs and their operations, it is imperative for players to build robust risk and governance models as they grow their lending business," the report said.

It further said that NBFC lenders must develop and implement risk management frameworks to pro-actively detect, manage and mitigate internal and external risk types.

Some of the risks that these players need to manage include credit risk, vendor risk, conducting periodic compliance reviews, performing quality control checks to ensure process adherence and ensuring information integrity.

"NBFC lenders must guard against information leaks, which could potentially jeopardise the customer's financial security and tarnish the lender's image," the report said.

Rising customer expectations and the proliferation of digital business models, according to the report, have accelerated the need for existing NBFC incumbents to transform their operations, while forcing new entrants to rethink their entry strategy.

The report comes amid the ongoing crisis with Infrastructure Leasing & Finance NSE -3.02 % Services (IL&FS), where the NBFC and its subsidiaries, reeling under severe liquidity crisis, have defaulted on several debt repayments recently.

This led to the Centre stepping in and taking control of the management of IL&FS, to check a contagion that could have impacted the financial sector.

Business Line

5. Bank of Baroda chief's term extended by one year

OUR BUREAU

The government has granted an year's extension to Bank of Baroda's Managing Director & Chief Executive Officer, PS Jayakumar, with effect from October 12.

This extension comes in the backdrop of the amalgamation between Bank of Baroda (BoB), Dena Bank and Vijaya Bank to form India's second largest public sector bank being set in motion.

Apparently, the government wants continuity at the top in BoB, the largest of the three banks that are getting consolidated.

As of June-end 2018, the three public sector banks collectively had a business of ₹14,82,422 crore.

In a stock exchange notice, BoB said: "The Central government has extended the term of office of PS Jayakumar as Managing Director and Chief Executive Officer of Bank of Baroda for a further period of one year beyond his currently notified period of appointment of three years that expires on

October 12, that is till 12.10.2019, or until further orders, whichever is earlier."

Earlier role

In August 2015, the government had appointed Jayakumar, who was then MD & CEO of VBHC Value Home Pvt Ltd, as MD & CEO of BoB for a period of three years with effect from the date of assumption of charge of the post, or until further order, whichever was earlier.

With kind regards,

Yours Comradely,



(**N. GOVINDRAJULU**)
GENERAL SECRETARY
