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Dear Comrades,

30th October , 2018

News of Interest 30th OCT

MOTIVATIONAL QUOTES

'FAILURE WILL NEVER OVERTAKE ME IF MY DETERMINATION TO SUCCEED IS STRONG ENOUGH.'

OG MANDINO

HIGHLIGHTS

1. UNION BANK OF INDIA REPORTS RS 1.39 BILLION NET PROFIT IN Q2 FY19
2. CENTRE VS CENTRAL BANK: GOVERNMENT CAN'T SECOND-GUESS RBI, TIME TO WORK TOGETHER
3. SC VERDICT ON AADHAAR: CONSUMER FINANCE FIRMS TO SEE A SLOWDOWN IN CUSTOMER ACQUISITION
4. VIEW: WHAT UDAY KOTAK-LED TEAM CAN LEARN FROM SATYAM BOARD TO REVIVE IL&FS
5. RBI CLEARS RE-APPOINTMENT OF ADITYA PURI AS HDFC BANK MD

Business Standard

1. Union Bank of India reports Rs 1.39 billion net profit in Q2 FY19

The bank had reported a net loss of Rs 15.3 billion in the July-September period of 2017-18

Abhijit Lele

Union Bank of India has seen a net profit of Rs 1.39 billion for the second quarter ending September 2018, on improvement in the net interest income and lower provisioning for bad loans.

The bank had reported a net loss of Rs 15.3 billion in the July-September period of 2017-18. It had posted a net profit of Rs 1.29 billion in the first quarter of the current financial year. The stock of the bank closed at 172.00,

up by 2.11 per cent from the previous close on the BSE. The net interest income rose by 7.5 per cent to Rs 24.94 billion in Q2, from Rs 23.21 billion in the same quarter last year. The net interest margins (NIM) improved to 2.18 per cent in Q2 from 2.08 per cent in Q2FY18.

Raj Kiran Rai, its managing director and chief executive, said the pricing power is back with banks and are able to decide rates based on risk profile of borrowers. The bank is maintaining guidance of 2.25 per cent for FY19, Rai said.

Financial Express

2. Centre vs Central Bank: Government can't second-guess RBI, time to work together

It is unfortunate that RBI, through deputy governor Viral Acharya's speech, came out so strongly against the government last week, and the analogy he started the speech with probably made things worse.

Public airing of bad blood between the government and the central bank must always be avoided, given the impression it gives market participants.

Also, Acharya talking about how Argentine bond markets taught the government there a lesson after it transferred \$6.6 billion from the central bank to itself seemed like it was an invocation to Indian bond markets should the Modi government succeed in getting at RBI's reserves.

That said, restraint is not something that just RBI needs to be practising; the government's sniping at RBI is quite public and the constant questioning of the central bank's stance on reining in various public sector banks through the use of its Prompt and Corrective Action (PCA) scheme is unfortunate since it makes it clear the government doesn't trust RBI's view.

And while the impression given by the government is that RBI has been sleeping on the job—and it is this that the government is trying to fix—it would be a very brave man who would say only the central bank's actions are causing a problem. This newspaper believes RBI raising repo rates hurts the economy— not everyone subscribes to this view—but rates go up even when government borrows too much, even if through surrogates since bond markets recognise this for what it is; FE estimates Rs 1.7 lakh crore of 'extra budgetary resources' will be raised in FY19.

And if, as the government says, RBI is guilty of not detecting the bad loans of banks in time or figuring out the IL&FS mess despite it being a systemically important NBFC, much of this applies to the government as well. As the owner of PSU banks, it needed to know what was happening and that is why it had its directors on these banks. As for IL&FS, apart from RBI, others who were clueless were members of the Financial Stability and Development Council which is headed by the finance minister and includes many finance ministry bureaucrats; more important, the top shareholders of IL&FS include LIC, SBI and Central Bank of India.

This is not the first time RBI and the government have clashed, and it is certainly okay for the government to have a different view from the central bank on PCA and other issues. But no regulator can work if its views are constantly questioned by the government in public. A better way to sort out these differences—and to come to a conclusion, which is what really matters—is to

have a larger debate with technical experts weighing in. When then CEA Arvind Subramanian recommended sequestering a part of RBI's reserves as they were "excess" and then RBI Governor Raghuram Rajan said this displayed a lack of understanding of how RBI functioned, the government should have converted this into a larger debate.

Trying to get its way in a boardroom brawl at RBI, as is happening right now, makes little sense since not enough experts have weighed in on the issue. Surely, a weak RBI without enough funds to carry out its essential tasks cannot be something the government would want, no matter how cash-strapped it is right now? The government would similarly benefit if there was a larger debate on whether the PCA framework should be relaxed; after all, if these banks had collapsed as they kept lending indiscriminately, the country would have been in the throes of a full-blown financial crisis.

Given how the financial system looks weak with the banks still not out of the woods—and IL&FS threatening to make things far worse, and not just in the banking sector—the country needs both RBI and the government to work together, not snipe at one another. Though this newspaper disagrees with inflation targeting as a policy, as Acharya has pointed out, when government and RBI have worked together, they have come up with strong policies they have both agreed upon—he mentions inflation targeting and stopping the automatic monetisation of government deficits as two success stories.

Finance minister Arun Jaitley would do well to initiate this patch up instead of leaving it to his bureaucrats who are only making things worse. While RBI would benefit from larger consultations as the FM has suggested, his statement that regulators aren't accountable while politicians are would suggest it is time to wind up all regulatory bodies; surely that cannot have been his intention?

3. SC verdict on Aadhaar: Consumer finance firms to see a slowdown in customer acquisition

By: [FE Bureau](#) | Published: October 29, 2018 3:26 AM

For retail lenders with credit verification processes built around technology, the order would raise operating cost, turnaround time in loan disbursement as well as fraud risk

The Supreme Court's order restraining entities from using Aadhaar data by striking down Section 57 of the Aadhaar Act is likely to hamper balance sheet growth of consumer finance companies in the short-term. On a long-term basis, especially for retail lenders who have credit verification processes built around technology, the order would increase operating cost, turnaround time in loan disbursement as well as fraud risk.

Impact on portfolio growth

Consumer durable financing, especially for small-ticket purchases, has been expanding at a rapid pace (around 45% annually over last two years). Over the past few years several fintech non-banking financial companies (NBFCs) have emerged, who have built a part of their books on small-ticket (personal as well as business) loans. Replacing Aadhaar with the traditional methods of verification will slowdown customer acquisition in existing geographies and reduce the pace of geographical expansion, thereby impacting fresh disbursements which would impact portfolio growth and credit penetration. The inability to use Aadhaar for authentication will impact the newer age NBFCs and

fintechs disproportionately, as one of their core competencies was a quick turnaround.

Operating cost to rise significantly

The turnaround time for disbursing loans is likely to increase for a few quarters until the lenders re-align their verification processes. Companies which were able to cover a larger geographical area while sourcing and processing cases only on digital platform may have to convert to conventional models for physical verifications, including increase in paper work, human intervention and setting up verification networks.

In addition, companies may have to grapple with requests from existing customers for delinking of their Aadhaar data. A typical eKYC verification cost could be below Rs 50, which could increase multi fold. This can significantly impact operating costs and players could probably need to revisit strategy on small-ticket and/or shorter tenor loans in terms of products and customer acquisition.

Impersonation risk may increase

The usage of Aadhaar for personal verification had earlier virtually eliminated fraud risk, which could again rise. However, firms which could efficiently deploy the robust conventional credit underwriting framework towards eliminating the frauds may mitigate this risk. Further, Aadhaar card can be substituted by a combination of other identity proof and address proof such as PAN and voter cards, issued by government agencies. Electronic verification of PAN card could allow lenders to mitigate fraud, which though is less superior to eKYC but can be somewhat sufficient as per consumer financiers' anti-fraud experience.

Impact on micro-finance

Micro-finance borrowers and lenders were among the biggest beneficiaries of Aadhaar-led identity verification. For disbursements, MFIs would now need to either disburse in cash or first verify bank accounts before making direct bank disbursements, thereby increasing operational costs and risks. In pre-Aadhaar days, lenders would use ration card, voter card, etc., as identity proof; these records are with the credit bureaus at least until FY17. However, fraud risk would rise. Again, buyers of microfinance portfolio from MFIs would probably select pools where second or third cycle borrowers have a dominant share in the pool to avoid the fraud risk with newly on-boarded borrowers.

Economic Times

4. View: What Uday Kotak-led team can learn from Satyam board to revive IL&FS

By *Hema Ramakrishnan*

All eyes are on the newly constituted board of Infrastructure Leasing and Financial Services (IL&FS), which has been tasked to come up with a rescue plan for the company by tomorrow. It should draw some pertinent lessons from the Satyam board that the previous government appointed in 2009, even if the scale and likely impact of the IL&FS crisis is much bigger than those of Satyam.

The crisis at IL&FS, which funds infrastructure projects, is largely due to systemic flaws built up over a period, unlike the outright corporate fraud at Satyam. The Satyam board stood out not just for strategising to salvage the IT services firm, but also for walking the talk to oversee its execution on a war footing.

The IL&FS board, too, needs to get on top of the crisis and put together a strong implementation team. Government-nominated Satyam board chairman Kiran Karnik had engaged with clients to ensure that they did not move en masse to competitors, after chairman B Ramalingam Raju confessed about years of accounting chicanery by the software firm.

Karnik's colleague on the board, Deepak Parekh, moved swiftly to appoint forensic auditors to restate accounts, and convince banks to lend to Satyam, which was struggling to pay salaries to its employees. The late C Achuthan, another GoI appointed nominee, spent weeks with legal advisers to estimate the legal liabilities and settle issues with regulatory agencies ahead of the company's sale.

His colleague, T N Manoharan, worked round the clock in Hyderabad, doubling as chief of the implementation team. He engaged with government agencies to remove irritants both in the day-to-day running of the company and effect a swift management change. "For 100 days, we stopped all work to attend to Satyam Parekh told ET in April 2009 (goo.gl/9tas7q), adding, "The board was given immunity and powers to do whatever they wanted to do. The government supported these decisions."

The board met 22 times in 97 days. That they successfully completed the process of finding a new promoter, Tech Mahindra within three months and — without much controversy — helped restore investor confidence in the Indian corporate sector, as well as among foreign investors about India's ability to deal with such situations.

GoI, Sebi and the Company Law Board also were up for praise for acting fast, with the transaction cheered all around. IL&FS is strapped for cash, and has missed debt repayments, making the credit markets jittery. Its problems, government officials admit, have impacted the wider non-banking financial company (NBFC) sector. That has been reason enough for GoI to step in, supersede the erstwhile IL&FS board and appoint hand-picked professionals to clear up the mess. The group's estimated debt is about Rs 91,000 crore. Hopefully, the board, steered by Uday Kotak, will come up with a bold and viable rescue plan that includes the sale of some assets to raise funds needed to pay off debts. What makes things tricky is the way IL&FS is structured.

It is an unusual finance provider, with the holding company becoming a core investment company supervised by RBI. It has an NBFC as a subsidiary But a majority of its 348 subsidiaries are not financial service providers — not regulated by RBI.

Concerns that more loan defaults by IL&FS could put the financial sector in deep freeze — and destabilise the markets — are not misplaced, given the size and the exposure of insurance, mutual funds and provident funds to the entity. So, there is a compelling case to treat IL&FS as a unique case.

It merits protection against any legal proceedings, and a stay on recovery of outstanding dues for a limited period, till restructuring is done under

supervision. The Insolvency and Bankruptcy Code (IBC) allows for immunity to corporate debtors up to a maximum of 270 days. This should be extended to IL&FS. Protection from creditor pressure will help the firm at this stage.

The board also needs to engage with various government agencies to ensure that the latter pay their dues, estimated at about Rs 16,000 cr. This would enable the company to service its debt. But the board must be supported with more hands-on professionals to handle operational matters. Former Sebi chairman MDamodaran has reportedly suggested providing at least two deputy managing directors to managing director Vineet Nayyar, former Tech Mahindra CEO who also helped steer Satyam out of the woods.

The IL&FS board has appointed three advisers to formulate and execute a resolution plan. This is welcome. Along with a rescue plan, the company's financing model that uses short-term borrowing to fund long-term infrastructure projects should be overhauled. Funding infrastructure with bonds, complete with bond guarantee funds, and other derivatives to hedge risks can prevent the recurrence of another IL&FS-like crisis, even if this is tided over. The board must be fully empowered 'to do whatever it takes' to set things right.

Business Line

5. RBI clears re-appointment of Aditya Puri as HDFC Bank MD

PTI

To remain CEO & MD of the private bank till October 2020

Private sector HDFC Bank on Monday said the RBI has approved re-appointment of Aditya Puri as managing director of the bank for another two years.

"Reserve Bank of India, vide its letter dated October 22, 2018, has accorded its approval to HDFC Bank Ltd. for re-appointment of Aditya Puri, as MD & CEO of the bank, from November 1, 2018 to October 26, 2020 (i.e. till the date of his attaining age of 70 years)," the bank said in a filing to stock exchanges.

Shareholders had already approved his appointment in 2015 for a period of five years subject to RBI approval, it said.

Puri has been with the bank since 1994, making him the longest-serving head of any private bank in the country. During his tenure, Puri has led the bank through two major mergers in the Indian banking industry -- merger of Times Bank Limited and Centurion Bank of Punjab Limited with HDFC Bank.

With kind regards,

Yours Comradely,



(**N. GOVINDRAJULU**)
GENERAL SECRETARY