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Dear Comrades,

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News of Interest 27th SEP

MOTIVATIONAL QUOTES

“DO NOT WAIT; THE TIME WILL NEVER BE 'JUST RIGHT.' START WHERE YOU STAND, AND WORK WITH WHATEVER TOOLS YOU MAY HAVE AT YOUR COMMAND, AND BETTER TOOLS WILL BE FOUND AS YOU GO ALONG” - GEORGE HERBERT

HIGHLIGHTS

1. RBI MONETARY POLICY REVIEW: BANK MAY HIKE RATES DESPITE BOND TURMOIL
2. CENTRE TO PUMP RS 54 BILLION INTO PNB TO MEET REGULATORY REQUIREMENTS
3. CAPITAL EROSION: RUMOURS OF LOAN AGAINST PROPERTY REGULATIONS MAY HAVE HIT NBFC STOCKS
4. NO PROPOSAL YET FROM IL&FS FOR ADDITIONAL FUNDS: SBI CHAIRMAN RAJNISH KUMAR
5. APEX COURT UPHOLDS AADHAAR'S CONSTITUTIONAL VALIDITY BUT BARS DATA FROM BEING SHARED WITH PRIVATE ENTITIES; KYC PROCESS MAY HAVE TO CHANGE

Business Standard

1. RBI monetary policy review: Bank may hike rates despite bond turmoil

'If the bond market turmoil affects the macroeconomic stability, it would affect rupee even further'

Anup Roy | Mumbai

Even as the bond market is going through some turmoil, the Reserve Bank would still continue with its rate-hiking cycle, say economists.

At least a 25 basis points hike can be expected on the October 5 policy, economists said. There could also be a change in stance this time. The consumer price index-based inflation for August was at 3.69 per cent, lower than the RBI's target of 4 per cent. On Wednesday, the rupee closed at 72.62 a dollar and the 10-year bond yields crossed 8 per cent-mark.

"The larger unattended question is on using monetary policy as a pincer movement: in terms of a more flexible and balanced approach responding systemically to episodes of current financial market volatility and sticking to price stability," said Soumyakanti Ghosh, chief economist at State Bank of India group.

"This would mean a transparent evaluation of the existing policy framework," Ghosh said.

Under the new monetary policy framework, the RBI is fixated on inflation. It is mandated to keep CPI inflation anchored around the central point of 4 per cent, but with a standard deviation of 2 percentage points on either side.

Nevertheless, the RBI's stance is to keep enough liquidity so that the weighted average call money rates remain around the policy repo rate, which is 6.5 per cent. If rates spike, it is an indication of shortage of liquidity in the system, at which point the RBI injects liquidity through secondary market bond purchases.

The bond market, meanwhile, is going through some liquidity crisis.

According to Gaurav Kapur, chief economist of IndusInd Bank, if the bond market turmoil affects the macroeconomic stability, it would affect rupee even further.

"Because of the rupee, the carry trade advantage has eroded. You need to restore that advantage. Besides, monetary policy cannot ignore inflation and inflationary expectations. The monetary policy is separate from the bond market turmoil, which is essentially a liquidity issue, and can be addressed by temporary liquidity measures," said Kapur.

While it is important to ensure that no spill over or contagion happens from the NBFC sector, repo rate is the signalling rate, while liquidity is to support the RBI's stance that the call money rates remain anchored around the repo rate.

The money market rates hardened even before the recent NBFC scare, indicating that the market was preparing for a rate hike.

Currently, the difference between a three-month paper of a AAA rated entity and the policy rate is close to 150 basis points, indicating that the market has fully factored in a rate hike.

"If there is no rate hike, the market would be surprised. The NBFC issue is not very serious, and should be okay in a week or two. The debt funds don't have much of an option but to invest in good quality papers," said a fund manager.

According to Radhika Rao, economist at DBS, the six-member monetary policy committee would likely announce a further 25bps hike in policy rates, "with more to follow."

While spill over worries from IL&FS default continues to hurt risk-appetite for the credit market, inflation in August fell and will stay benign in September- October, lowering the urgency for a rate hike.

However, RBI would still go for a hike emphasizing "on the forward-looking nature of monetary policy, as high oil prices and a weak rupee, risk hardening inflationary expectations and disrupt the benign inflation outlook," Rao wrote in a note.

2. Centre to pump Rs 54 billion into PNB to meet regulatory requirements

State-run banks may not get capital based on their performance and reform measures

Somesh Jha | New Delhi

The government may ditch its plans to infuse capital into public sector banks (PSBs) based on their performance and reform measures this financial year, as it looks to pump in money to meet regulatory requirements and help grow loan books of the banks.

This comes following demands from PSBs, during the annual review meeting with Finance Minister Arun Jaitley on Tuesday, that they may require early funds from the government to help them in lending more to the industry.

In its latest move, the government has decided to infuse Rs54.3 billion in the Punjab National Bank (PNB), which was hit by Rs143-billion fraud, through recapitalisation bonds. The Delhi-headquartered bank had demanded an additional capital of around Rs80 billion for 2018-19 earlier this year following the fraud.

After rejecting its demand earlier, the government has infused Rs2.5 billion in PNB so far. The Centre had earlier pumped in Rs28.2 billion into PNB for meeting its minimal capital requirement at the time of paying interest towards Additional Tier 1 (AT-1) bonds.

With this, the total government infusion into PSBs has reached almost Rs191 billion this financial year. Earlier, five more banks – Central Bank, Corporation Bank, Indian Overseas Bank, Andhra Bank and Allahabad Bank – were capitalised by the government.

Finance Minister Arun Jaitley had said during a press conference on Tuesday that bankers had demanded that the government be "more upfront in capital requirement." State Bank of India Chairman Rajnish Kumar said that the bankers demanded the government to advance its capital infusion schedule.

"The intention is right, but with a right intention and a sizeable capitalisation programme that has been announced, you wouldn't want to see failure. Today, some of the banks are not meeting their capital needs. Imagine a situation where banks are unable to service their tier-1 bonds, what repercussions would that have?" said Karthik Srinivasan, senior vice-

president at Icra. "The near-term pain in the system is forcing the government to infuse money into weaker banks," he said.

When the government had announced the contours of the Rs2.11 trillion recapitalisation programme in January, department of financial services secretary Rajiv Kumar had promised that recapitalisation in 2018-19 would be dependent on the performance and reforms of PSBs.

"This is no easy money (that the banks will get)," Kumar had said, adding that the PSBs will have to adopt the differentiated business strategy and exit from non-core businesses and focus on their core competencies, as a part of the 30-point reforms agenda chalked out by the Centre.

Financial Express

3. Capital erosion: Rumours of loan against property regulations may have hit NBFC stocks

LAP is a category of loans normally availed by medium and small businesses.

By: FE Bureau | Mumbai |

The recent sell-off in shares of non-banking financial companies (NBFCs) and housing finance companies (HFCs) may have been aided in part by rumours that regulators may tighten reporting norms for such companies, especially with respect to their loan against property (LAP) portfolios.

LAP is a category of loans normally availed by medium and small businesses. However, there are murmurs in the industry about how some NBFCs may have under-reported the size of their LAP portfolios, classifying some of them as housing loans instead.

"It is difficult to identify companies who may be doing this, but I have heard that the practice is rampant," a former executive with a financial regulator told FE.

LAP is seen to be a riskier category than mortgages as borrowers are typically less fearful of losing other properties to a lender than they are of losing their own house. Also, the value of collateral associated with LAP portfolios may erode, as has been the case in recent years.

Delinquencies in the LAP category have ticked up this year. According to consumer credit-scoring firm TransUnion Cibil, LAP was the only consumer product category which witnessed a significant increase in serious delinquency rates, growing by 65 basis points (bps) year-on-year to 3.04% in the June quarter this year.

In July, rating agency Moody's said that rising interest rates for LAP to small and medium-sized enterprises (SMEs) over the rest of 2018, together with cautious underwriting by lenders in light of rising delinquencies, will pose a risk for Indian asset-backed securities (ABS) deals backed by such assets.

"We consider that the expected rise in interest rates for LAP will reduce refinancing options for small business owners, adversely affecting existing borrowers," says Dipanshu Rustagi, assistant vice president and analyst, Moody's.

"Higher interest rates will also lead to an increase in loan repayment amounts for borrowers who cannot extend loan terms," added Rustagi.

Shares of HFCs ended mixed on Tuesday, with Housing Development Finance (HDFC) closing 0.31% down at Rs 1,766.20, LIC Housing Finance slipped 0.84% at Rs.432.90, Indiabulls Housing Finance gained 6.9% at Rs 997.55, Dewan Housing Finance rose 1.43% at Rs.305 and PNB Housing Finance fell 5.27% at Rs 1,003.45.

Economic Times

4. No proposal yet from IL&FS for additional funds: SBI chairman Rajnish Kumar

By PTI|

MUMBAI: The largest lender State Bank of India NSE -2.60 % Wednesday said it has not received any concrete proposal for additional funds so far from the crisis-ridden Infrastructure Leasing & Financial Services (IL&FS) group.

SBI holds 6.42 per cent in the IL&FS group that is facing serious liquidity crisis and has defaulted on interest payment on various debt repayments since August 27. The group has over Rs 91,000 crore in debt.

"There is no concrete proposal as of now. When I receive a concrete proposal then we will decide," chairman Rajnish Kumar told reporters when asked whether IL&FS has asked for any funds from the bank.

LIC, which is the largest shareholder with over 25 per cent stake, had Tuesday said it wouldn't allow the group to go belly up.

Kumar, who was talking to reporters after launching a co-branded credit card with Apollo Hospitals, said SBI, being the leader in the industry, will do everything to stabilise the financial markets.

"The SBI board will take decisions based in the larger interest of the industry and also to protect our shareholders interest," Kumar added.

IL&FS needs an immediate capital infusion of Rs 3,000 crore and is also planning a Rs 4,500 crore rights issue, but some of the existing shareholders like HDFC is not keen to participate in the issue.

At a meeting held earlier this month, the key shareholders of the debt-ridden company, including LIC, SBI and HDFC had kept a pre-condition for it to raise funds through its assets or noncore businesses, before any additional money could be pumped in.

There have been reports that IL&FS has even put on block its headquarters in the city for around Rs 1,300 crore.

On September 4, it came to light that IL&FS had defaulted on a short-term loan of Rs 1,000 crore from Sidbi, while a subsidiary has also defaulted Rs 500 crore dues to the development finance institution.

On Monday IL&FS Financial Services also defaulted on repayment of commercial papers due that day. While the IL&FS group has a consolidated debt of Rs 91,000 crore with IL&FS alone having nearly Rs 35,000 crore, and IL&FS Financial Services Rs 17,000 crore, which sits as standard asset for most of the lenders, according to a Nomura India report.

Talking about the current liquidity crisis in the banking industry, Kumar said the situation is not a big concern at present.

"I don't think that liquidity is so big a concern that we have to request RBI for a cut in the cash reserve ratio," he said when asked have banks requested RBI to reduce CRR, which stands at 4 per cent now.

As of March 2018, LIC and Orix Corporation of Japan were the largest shareholders of IL&FS with 25.34 and 23.54 per cent respectively, while Abu Dhabi Investment Authority, HDFC, Central Bank of India and SBI hold 12.56 per cent, 9.02 per cent, 7.67 per cent and 6.42 per cent, respectively.

Business Line

5. Apex court upholds Aadhaar's constitutional validity but bars data from being shared with private entities; KYC process may have to change

KR SRIVATS

Financial sector regulators, including the RBI, IRDAI and PFRDA will have to take a relook at their know-your-customer (KYC) architecture now that the Supreme Court has ruled that private entities cannot use Aadhaar information to authenticate the identity of a person.

Hours after the Supreme Court's five-judge Constitution Bench headed by Chief Justice Dipak Misra struck down Section 57 of the Aadhaar Act, 2016, which allowed sharing of Aadhaar data with private entities, the regulatory bodies in the financial sector went back to the drawing board, analysing the legal implications.

Call for robust law

Besides upholding the constitutional validity of the Aadhaar scheme, the apex court on Wednesday also asked the Centre to bring a robust law for data protection as soon as possible. It also held that the Aadhaar Act, passed as a Money Bill, is valid.

Reacting to the judgment, Finance Minister Arun Jaitley said Aadhaar has helped the Centre save ₹90,000 crore annually with targeted delivery of government schemes.

While the ruling has many positives for the common man, more clarity is needed for banks and their customers on KYC norms. OTP-based e-KYC is seen to have helped millions of people access financial products over their mobile phones.

The Supreme Court ruled that Aadhaar is not mandatory for opening a bank account or getting a mobile connection. It is, however, mandatory for PAN

and filing of income-tax returns. Aadhaar will also not be compulsory for school admissions, the apex court has said.

Given that regulators allowed the use of Aadhaar information for e-KYC by industry players, it is felt the latest judgment will have some dislocating effect on their operations. An RBI spokesperson said the central bank is awaiting the full judgment copy.

The RBI's existing circulars and orders around KYC note that the central bank's directions were subject to the Supreme Court's final verdict on the Aadhaar case, the official said.

"The RBI will have to align itself to what the apex court has ruled. There is no option for the central bank," the RBI spokesperson added.

RV Verma, former CMD of National Housing Bank as well as former PFRDA member, told *BusinessLine* that the emphasis on Aadhaar as a proof of identity for the financial sector will now see a rollback.

Unique Identification Authority of India CEO Ajay Bhushan Pandey said: "Aadhaar has come out winning as the champion of the empowerment of people, especially the marginalised sections of society and also as the key to the welfare scheme delivery of the government that has eradicated fakes, duplicates and middlemen."

With kind regards,

Yours Comradely,



(**N. GOVINDRAJULU**)
GENERAL SECRETARY