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Dear Comrades,

17th May , 2019

News of Interest 17th May

QUOTE OF THE DAY

'ALL OUR DREAMS CAN COME TRUE, IF WE HAVE THE COURAGE TO PURSUE THEM'. –
WALT DISNEY

HIGHLIGHTS

1. RBI ASKS NBFCs WITH OVER RS 5,000 CR ASSETS TO APPOINT CHIEF RISK OFFICER
2. YES BANK TROUBLES RUN DEEPER THAN INVESTORS BELIEVE; CLEANUP WILL BE TOUGH
3. BACK IN THE BLACK: BANK OF INDIA SWINGS TO PROFIT IN Q4 WITH RS 252 CRORE
4. PNB TERMINATES AGREEMENTS TO SELL STAKE IN HOUSING FINANCE ARM
5. ARE BANKS SHYING AWAY FROM OFFERING RUPAY CARDS TO AFFLUENT CUSTOMERS?

Business Standard

1. RBI asks NBFCs with over Rs 5,000 cr assets to appoint chief risk officer

CRO will be entitled to voting rights in finance companies which use a committee structure to clear high-value loans with CRO as panel member

Subrata Panda

With crisis engulfing the non-banking financial company (NBFC) sector, the Reserve Bank of India (RBI) on Thursday asked finance companies with asset size more than Rs 5,000 crore to appoint a chief risk officer (CRO), who will function 'independently to ensure the highest standards of risk management'.

The RBI in a statement said the CRO has to be a senior official in the hierarchy of an NBFC and will be appointed for a fixed tenure, with the approval of the

board of the NBFC. The CRO shall be involved in the process of identification, measurement, and mitigation of risks. Moreover, all credit products of NBFCs — whether retail or wholesale — have to be inspected by the CRO, but his role in deciding credit proposals shall be limited to being an advisor.

The RBI said the CRO will be entitled to voting rights in finance companies which use a committee structure to clear high-value loans with CRO as panel member. Plus, all members of the panel will be liable for all aspects, including risk perspective related to the credit proposal.

The RBI has said the CRO will report directly to the managing director (MD) & CEO/Risk Management Committee (RMC) of the board. In case the CRO reports to the MD & CEO, the RMC/board should meet the CRO without the presence of the MD & CEO, at least on a quarterly basis, the RBI added.

The RBI has made it clear that the CRO shall not have any reporting relationship with the business verticals of the NBFC. They shall not be given any business targets and not be given any other responsibilities.

Many NBFCs have been under stress following the beleaguered Infrastructure Leasing & Financial Services (IL&FS) group defaulting on its debt obligations, triggering panic in the financial markets. Since then, the NBFCs have been struggling to get funds for their operations, as banks and mutual funds have been very cautious lending to them.

Moreover, the cost of borrowing for these entities has also gone up. Now, they are relying more on retail bond issuances, external commercial borrowings, masala bonds, and securitisation for funds.

The asset-liability mismatch, wherein the NBFCs were borrowing in the short term and using the money to give long-term loans, was exposed because of the IL&FS defaults. This engulfed many NBFCs/housing finance companies, causing them to virtually stop lending, so as not to weaken the balance sheet any further.

2. YES Bank troubles run deeper than investors believe; cleanup will be tough

It is unlikely to find a long list of suitors and any arranged marriage will need to be solemnized by the RBI

Andy Mukherjee | Bloomberg

It's no secret that India's banking regulator hates having its officials sit on the boards of state-run lenders.

The practice exposes the Reserve Bank of India to all kinds of potential conflicts it would rather avoid. So when the RBI used its special powers to appoint a former deputy governor as a director of Yes Bank Ltd., a non-state lender, it sent a powerful signal: The bank's troubles run deeper than investors believe, and a cleanup will probably be harder. The eventual solution may be to let the country's 10th-largest bank by market value get swallowed by a bigger balance sheet.

Yes Bank's problems started two years ago, when the regulator forced it to disclose that nonperforming loans were \$630 million more than the \$113 million reported in the company's audited accounts for the year ended in March 2016. The divergence widened to almost \$1 billion a year later.

Last September, the RBI pulled the plug, and refused to approve a further three-year term as chief executive for co-founder Rana Kapoor. Deutsche Bank AG's former India CEO Ravneet Gill, who recently replaced Kapoor, has decided to make kitchen-sinking of problem loans his first priority. Yes reported its first-ever loss during the March quarter after the new CEO took a \$300 million hit to cover for loans that could go bad in the future.

Still, with the old management out and a cleanup guy in place, why would the RBI get involved with Yes now? Its gross nonperforming asset ratio is 3.2 percent, compared with 7.5 percent for State Bank of India, the country's largest lender by assets.

A reasonable guess is Yes Bank's linkages with financial and real-estate firms, two of the businesses facing the biggest funding squeezes in India. Such exposure works out to a sixth of the loan book, based on figures released by the bank.

A fire sale of debt securities held by Yes Bank's treasury would further push up funding costs for its borrowers — the struggling shadow-lending industry. Before you know it, the financing drought that started with the collapse of IL&FS last September could turn into a full-fledged famine just as a new government is getting sworn in in New Delhi.

That's not something the central bank can allow on its watch.

The RBI has previously used its special powers to appoint directors in Dhanlaxmi Bank as well as Lakshmi Vilas Bank. Interestingly, Indiabulls Housing Finance Ltd. wants to merge with Lakshmi Vilas, provided the RBI allows the shadow bank to morph into a deposit-taking institution. It's reasonable to expect that even Yes Bank will become the target of some sort of special situation investor.

However, there are uncertainties around how much headway new CEO Gill will make and how soon. His problems literally run from A to Z — from tycoon Anil Ambani to television broadcaster Zee Entertainment Enterprises Ltd. The bank's exposure to the former's crumbling empire alone is \$1.85 billion, or half of the bank's common equity, Bloomberg Quint reported this month. Ambani's telecom company is in bankruptcy, while his finance business struggles with a liquidity crunch and credit downgrades. Meanwhile, Yes Bank has a \$470 million exposure to Zee's controlling shareholder, Business Standard reported in January.

Given all this, a long line of willing suitors for Yes is unlikely. Any hook up will probably have to be an arranged marriage, solemnized by the RBI.

Financial Express

3. Back in the black: Bank of India swings to profit in Q4 with Rs 252 crore

By: [FE Bureau](#)

The bottom line was driven by strong net interest income growth and a sharp drop in provisioning for bad loans. The state-run lender witnessed a 57.72% y-o-y rise in net interest income (NII) to Rs 4,044 crore.

Bank of India on Thursday swung to a profit of Rs 251.79 crore for the three months to March against a loss of Rs.3969.27 crore in Q4FY18.

The bottom line was driven by strong net interest income growth and a sharp drop in provisioning for bad loans. The state-run lender witnessed a 57.72% y-o-y rise in net interest income (NII) to Rs 4,044 crore. Meanwhile, provisions fell 71.57% y-o-y to Rs.1,897.43 crore.

The bank came out of the Prompt Corrective Action framework in January this year.

NII is the difference between interest earned and interest paid by a bank.

BOI shares ended up 1.94% for the session, following the earnings announcement, settling at Rs 81.65 per share.

The public sector lender witnessed an improvement in asset quality. At the end of March 31, 2019, the bank's gross and net NPAs stood at 15.84% and 5.61% against 16.31% and 5.87% as of December 31, 2018, respectively.

While the bank's slippages during Q4FY19 stood at Rs.3,102 crore, it also managed recoveries worth Rs.1,982 crore, made upgradations worth Rs.4,77 crore while write-offs were at Rs.780 crore.

The bank sold assets worth Rs.17,000 crore to asset reconstruction companies during the previous financial year. It has set further identified assets worth Rs.30,000 crore for sale, possibly after Q1FY20, managing director and chief executive officer Dinabandhu Mohapatra said at a post-earnings conference. Elaborating on the bank's asset portfolio, the management said the bank's SMA2 book stood at Rs.8,200 crore.

Meanwhile, the bank's exposure to a private aviation sector company, understood to be Jet Airways, stood at Rs.276 crore. "in respect of one stressed performing asset in aviation sector Bank has made additional provision of Rs.40 crore," the notes to its profit and loss statement read.

The bank also holds a Rs.3,600-crore exposure to a government-owned airline, understood to be Air India.

However, Mohapatra said the bank had made 100% provisions against exposure to all non-performing accounts under the Reserve Bank of India's first and second list of NPAs flagged for reference to the National Company Law Tribunal and expects 'good write back' upon resolution of select accounts in coming quarters.

Mohapatra further added the bank was expecting write back worth Rs.2,000 crore in the current quarter. In absolute terms, BOI's gross NPA stood at Rs.60,661 crore and net NPA stood at Rs.19,119 crore.

Global net interest margin (NIM) stood at 2.93% in Q4FY19.

The bank's gross global advances grew 1.83% y-o-y to Rs.82 lakh crore as on March 31, 2019, largely supported by a 11.80% y-o-y rise in domestic advances. The bank's foreign advances, meanwhile, witnessed a sharp 33.67% decline on-year.

Total global deposits grew 0.002% on-year to Rs.5.20 lakh crore for the quarter ended March 2019, on the back of a 0.14% on-year rise in domestic deposits, while foreign deposits fell 0.57%.

Economic Times

4. PNB terminates agreements to sell stake in housing finance arm

The bank, in a filing to the exchange, said it will continue to be the sole promoter of PNB Housing Finance post the termination of the pacts, and stay strategically invested in its housing finance arm.

PTI

State-run Punjab National Bank Thursday said it has terminated the agreements with General Atlantic Group and Varde Partners to sell its stake in PNB Housing Finance (PNBHF). The bank, in a filing to the exchange, said it will continue to be the sole promoter of PNB Housing Finance post the termination of the pacts, and stay strategically invested in its housing finance arm.

Of the two agreements, the one with Varde Partners was terminated mutually, while the contract with General Atlantic Group was terminated in the absence of regulatory approvals.

In March this year, the bank had entered into two independent agreements for selling 1.08 crore of its equity shares held in PNBHF each to General Atlantic Group and Varde Partners at Rs 850 apiece.

The transaction with General Atlantic Group was required to be completed on or before May 15, 2019, the bank said.

The transactions needed approval from the Competition Commission of India (CCI), National Housing Bank (NHB) and the Reserve Bank of India.

The lender said communication from CCI approving the transaction has been received by General Atlantic Group on May 8, 2019, although the final order is yet to be received.

The NHB has also given its approval for the transaction on May 7, 2019.

"The transacting parties to the share purchase agreement (SPA) have not been accorded approval by the RBI for exemption from application of pricing guidelines under the foreign exchange management," the bank said.

Since all conditions precedent to completion of the transaction are yet to be fulfilled and completion has not occurred as on May 15, 2019, the SPA with General Atlantic Group stands terminated with immediate effect, the lender said.

The bank said it strongly believes in the growth story of housing finance and will continue to support the business and its management in pursuing their growth plans.

Business Line

5. Are banks shying away from offering RuPay cards to affluent customers?

[Surabhi](#)

NPCI says it is only a matter of perception as RuPay offers good infrastructure and benefits

Paytm and Citi offering their first credit card on the Visa platform is just the latest example of how banks continue to have little faith in RuPay when it comes to the middle- and upper-income segments.

"The infrastructure is not there," said Paytm head Vijay Shekhar Sharma and Citibank officials when asked why they chose to use Visa for the Paytm First credit card.

Although as many as 436 banks are RuPay-issuance banks, this is a common refrain among most bankers when asked why they still offer Visa or Mastercard to urban middle- and higher-income customers.

"We always offer RuPay cards. It is a matter of national pride, but it also depends on the customer profile. Customers who travel abroad, even if it is once a year, prefer to have some other payment service, as the acceptance is much higher across countries and continents," said a private banker, who did not wish to be named.

Rewards programme

Another banker said that the interchange fee and rewards programme for RuPay is not quite attractive. "RuPay is a part of our bouquet, but when customers choose a credit card or even a debit card, they look at the kind of rewards and points on offer. In this, Visa, Mastercard and Amex tend to come ahead," he said.

However, the National Payments Corporation of India (NPCI), which launched RuPay, says this is more of a perception issue and that RuPay has more than adequate infrastructure and benefits, compared to the more-established peers. "We operate in all parts of the pyramid, including the Pradhan Mantri Jan Dhan Yojana. There is a risk of being positioned in one part because you are the only player in that part. But the fact is that nearly 50 per cent of our base is in the mid- and top-end segment," said Praveena Rai, Chief Operating Officer, NPCI.

Launched in 2012 as a domestic multilateral payment system, the initial task of RuPay was to get the back-end and issuance infrastructure in place. Speaking to *BusinessLine*, Rai stressed that the acceptance of RuPay is now fully in place.

"Today, nearly 30 lakh merchant terminals are RuPay-enabled, and we have 90,000 online merchants," she said, adding that there are more than 1,100

offers, across dining, shopping, and entertainment categories, as well as airport lounge access.

According to NPCI data, more than 1,100 banks have been on-boarded into the RuPay Card Program, and have issued more than 60 crore cards. The RuPay card base in the mass and affluent segments touched 32.5 crore in 2018-19.

RuPay market share

In the last four years, RuPay has gained nearly 58 per cent of the issuance market share. The transaction share in volume and value terms is currently at 30 per cent of the market share, and is seen to pose serious competition to Mastercard and Visa.

Rai also counters claims and said the interchange fee is on a par with the market and the switching fees for RuPay is lower than the market.

For international customers, RuPay also issues RuPay Global Cards on the Discover Network. Between 2014 and March 2019, it has issued 6.4 crore such cards. The acceptance of RuPay Global cards with the partnership of Discover reaches over 4.1 crore merchants, across 190 countries, added Rai.

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY