SEPTEMBER 2017 VOLUME-27

ASSOCHAM INDIA

Banking e-Bulletin

THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

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TOP RBI SPEECHES

Resolution of Stressed Assets: Towards the Endgame (Urjit R. Patel, Governor - August 19, 2017 - Inaugural Session of the "National Conference on Insolvency and Bankruptcy: Changing Paradigm", Mumbai):-

The gross NPA (GNPA) ratio of the banking system at 9.6 per cent and the stressed advances ratio at 12 per cent as of March 31, 2017, on the back of persistently high ratios in the past few years is, indeed, a matter of concern. 86.5 percent of the GNPAs are accounted for by large borrowers, i.e., borrowers with aggregate exposure of ₹ 5 crores and above. The challenge in dealing with the issue gets accentuated when observed against the capital position of some of the banks, particularly public sector ones. Swift, time-bound resolution or liquidation of stressed assets will be critical for de-clogging bank balance sheets and for efficient reallocation of capital. The Government, IBBI and the Reserve Bank have been working together to comprehensively address the challenge through a multi-pronged approach. In brief remarks today, I intend to highlight the key dimensions of this convergent approach and share the underlying thinking. The specific measures taken over the last few months, both by the Government and the Reserve Bank, to strengthen the legal, regulatory, supervisory and institutional framework are aimed at the ultimate objective of facilitating quick resolution of stressed assets in a time-bound manner. The sense of urgency imbued in these measures is reflective of the intent not to allow things to drag any further. The recent measures address, inter alia, two key lacunae in the earlier framework: one, the absence of a hard-coded, time-bound period for resolution; and two, the agency and coordination failures at banks and Joint Lenders Forums (JLF) in pushing through viable restructuring plans.

I. Strengthening the Legal Framework

The Insolvency and Bankruptcy Code, 2016: The enactment of the Insolvency and Bankruptcy Code, 2016 (IBC) is a watershed towards improving the credit culture in our country. Prior to the IBC, India had multiple laws that governed various facets of a corporate rescue and/or insolvency process, without having a comprehensive legal framework that envisages a holistic process applicable to troubled or defaulting companies. The IBC provides for a single window, time-bound process for resolution of an asset with an explicit emphasis on promotion of entrepreneurship, maximization of value of assets, and balancing the interests of all stakeholders. For a creditor, an asset, in most cases, is more valuable when it is a going concern and generates adequate cash flow, as compared to an asset under liquidation. IBC puts a time limit of 180 days (extendable by a further 90 days) within which creditors have to agree to a resolution plan, failing which the adjudicating authority under the law will pass a liquidation order on the insolvent company. So the threat of liquidation, which could potentially result in larger losses for the creditors as a whole, should be sufficient incentive for them to ensure efficient coordination during the insolvency resolution period so as to quickly arrive at a decision. For the promoter, the biggest cost of being pushed under IBC may be the possibility of losing the firm to potential bidders. This should incentivise the firms to avoid defaults and not over-borrow in the first place. This would improve ex-ante the credit culture in the country.

Turning to the Banking Regulation (Amendment) Ordinance: this has since been passed by both Houses of Parliament, under the expert stewardship of the Finance Minister. The size and nature of the NPA problem necessitated concomitant measures to signal intent and commitment of the Government and the Reserve Bank to meet the challenge squarely. The IBC was in place but the required action in respect of the large stressed accounts was not forthcoming on the part of banks and JLFs. Part of the inertia may have to do with the initial days of the IBC; but part of it was also the typical (and severe) agency and moral hazard problems of not resolving NPAs when the banking sector is majorly government-owned. It was to address this market failure that the need for statutory backing to the Reserve Bank to direct reference of cases under IBC was considered necessary. The Banking Regulation (Amendment) Ordinance, 2017 empowers the RBI to issue directions to banking companies to initiate an insolvency resolution process in respect of a default, under the provisions of the IBC. It also enables the Reserve Bank to issue directions with respect to stressed assets and specify one or more authorities or committees with such members as the Bank may appoint or approve for appointment to advise banking companies on resolution of stressed assets.

Follow-up action by the Reserve Bank: Pursuant to the promulgation of the Ordinance, the Reserve Bank identified a set of accounts to be referred for resolution under IBC, based on the recommendations of an Internal Advisory Committee (IAC). The process adopted for identifying the entities was consistent with the object of making quickest recovery of economic value. The classification criteria recommended by the IAC was based on an intelligible differentia (quantum, materiality, as well as age as of the NPA) and had close nexus with the underlying object of the IBC and the Ordinance.

10. It must be emphasized, however, that being referred for insolvency process under IBC does not necessarily mean that the company is being liquidated. It simply puts a timeline within which the various stakeholders have to come up with a feasible resolution plan, to be approved by at least 75 per cent of the Committee of Creditors; only if this effort fails would the company end up in liquidation.

II. Evolving Regulatory Framework

The continuing endeavor of the Reserve Bank has been to strengthen the supervisory and regulatory framework to ensure timely recognition and disclosure of incipient stress and to facilitate effective and meaningful resolution. In particular, the decision to do away with the regulatory forbearance regarding asset classification on restructuring of loans and advances effective April, 2015, was a significant step from the perspective of aligning the regulatory norms with international best practices. The Asset Quality Review (AQR) exercise undertaken in 2015-16 was a critical step in recognizing the aggregate stock of non-performing assets across the banking system – it was a form of "catch-up". In tandem, a series of measures were put in place to provide a mechanism for coordinated resolution of stressed assets. Further, additional tools to deal with problem assets were also introduced, in the absence of an effective resolution framework. These tools primarily facilitate optimal structuring of credit facilities, ability to change ownership/ management, and help restructuring of stressed assets. A framework was put in place for greater transparency in sale of stressed assets by banks with a view to ensuring the sale is at market determined prices. The system of 'Prompt Corrective Action' (PCA) under which specific regulatory actions are taken by RBI if banks breach certain trigger points has recently been revised. This ensures timely supervisory action in case of problem banks following a rule based approach. The PCA's objective and design is to strengthen a bank's fundamentals and imbue confidence. Weak credit discipline in banks, right from the appraisal to sanction stage, is one of the main bank specific factors in the build-up of stressed assets. The risk based supervisory process of the Reserve Bank keeps flagging some of these risks which are taken up with the institutions concerned for remedy. However, in order to ensure an effective enforcement action on the specific violations/breaches, a separate Enforcement Department has been established. The mandate of the Department is to develop a rule based, consistent framework to deal with breaches of law, rules and directions. Effective deterrence enforced through such actions is expected to contribute to strengthening the credit culture overall. During the Annual Financial Inspections (AFIs) of the banks, it is usually observed that there is a divergence between the NPAs and provisions declared by the banks and those assessed during the AFI process. This has adverse implications on timely recognition of actual risk, trustworthiness and transparency of books of accounts, management effectiveness, etc. Accordingly, in order to address this asymmetry, disclosure requirements have been put in place – banks have to disclose in their annual accounts the details of such divergences where these exceed specified thresholds. The recent decision by SEBI that requires listed entities to disclose defaults on, inter alia, bank loans within one working day can make a huge difference in the credit culture. If my understanding is correct: effectively, a one-day default by bank debtors will result in all bank loans to the debtor entity being generally classified as 'default' by the rating agencies, with attendant implications for risk weights on such exposures and capital requirements by the banking system.

III. Institutional Measures

Central Repository of Information on Large Credits (CRILC): Setting up of CRILC by the Reserve Bank in 2014 filled a critical gap in addressing the information asymmetry regarding NPAs at the system level by facilitating collection of data on all borrowers' credit exposures across the banking system. Having the aggregate view of borrower-wise and bank-wise exposures provided the requisite tool for supervisors as well as lenders to track the incipient stress in a particular account in a timely manner. In fact, without CRILC the AQR would not have been possible.

Joint Lenders Forum (JLF) Mechanism: The Framework for Revitalising Distressed Assets in the Economy in January 2014, with the objective of addressing coordination problems in large, consortium accounts, envisaged constitution of the JLF. Specifically, one of the key problems with the framework was the dissenting creditor exception that held up the restructuring process in many cases. In other words, what economists call the inherent agency and incentive failures due to pivotal voting constrained the JLFs from achieving the very objective they were envisioned for. Some of the above issues were addressed in May 2017, immediately after the promulgation of the Ordinance. The norms for consent required for approval of a proposal was changed to 60 percent by value instead of 75 percent earlier. Banks who were in the minority on the proposal approved by the JLF were required to either exit by complying with the substitution rules within the stipulated time or adhere to the decision of the JLF; "cram downs" are now feasible. The participating banks were mandated to implement the decision of the JLF without any additional conditionality. Also, the Boards of banks were advised to empower their executives to implement JLF decisions without further reference to them. These instructions, aimed at reducing the coordination problems among lenders while trying to resolve stressed assets outside the purview of the IBC, will hopefully result in speedier decisions amongst the lenders.

Overseeing Committee: In order to strengthen the role of the Overseeing Committee (OC), the Reserve Bank, in exercise of powers vested under Section 35 AB of the Ordinance, brought the OC under its aegis with an expanded membership to review the process followed by banks for restructuring outside the IBC. This was necessary to reinforce the statute-backed authority of the OC to review the processes and provide requisite comfort to the lenders, particularly public sector banks, to agree to a market-determined haircut as part of restructuring.

IV. The Fiscal Dimension

The success and credibility of all the resolution efforts detailed above would be critically contingent on the strength of the public sector balance sheets to absorb the costs. It is clear that PSBs will need to take haircuts on current exposures under any resolution plan agreed within or outside the IBC. Higher provisioning requirements, on this count as well as other factors, will affect the capital position of several banks. This would necessitate a higher recapitalization of the public sector banks. The Government and the Reserve Bank are in dialogue to prepare a package of measures to enable PSBs to shore up requisite capital in a time-bound manner. The measures could include a combination of capital raising from the market; dilution of government holdings; additional capital infusion by the Government; mergers based on strategic fit; sale of non-core assets etc.

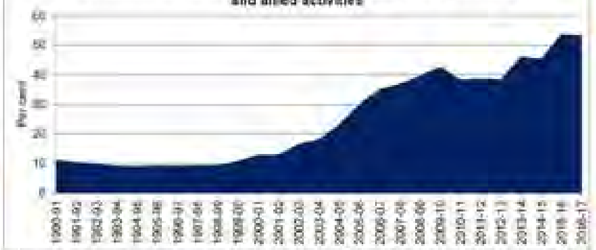
V. Conclusion and Way Forward

The multi-pronged approach outlined above is an on-going process. The early signs are encouraging. However, we all must realize that it will be a long haul before the intended objectives are fully achieved. There could be initial glitches and unanswered questions but these will get resolved as the process advances. The IBC process itself will evolve as case history of various NCLT/NCLAT judgments build up. The contours of the approach to be adopted for other non-performing accounts are being worked through. We must, however, stress that the exercise of powers by the RBI vested in Sections 35 AA and 35 AB cannot be a regular, steady state approach. The lenders have been adequately empowered under the IBC to take necessary action upon default. It is now incumbent upon all lenders to effectively leverage these powers through proactive, timely references under IBC on their own. Even under IBC, huge responsibility is cast upon the Committee of Creditors to agree to a viable restructuring plan in each admitted case within the prescribed timelines. The creditors, in particular banks, will need to devote adequate resources and strengthen internal processes to focus on these cases as the number is only going to go up. In conclusion, I must reiterate the intent and resolve on the part of the Government and the regulators to collectively address the problem of stressed assets in the system. There are pains and costs to be borne, but as long as the end-game is a desirable goal, these should be worth it for placing the private economy structurally on a path of sustained growth.

Seminar on Agricultural Debt Waiver – Efficacy and Limitations (Opening remarks by Urjit R. Patel, Governor, Reserve Bank of India, August 31, 2017, Mumbai):-

In the recent period, farm loan waivers have engaged intense attention among the farming community, policy makers, academics, analysts and researchers. On the one hand, there is a gamut of issues that have intensified the anguish of our farmers. In this context, farm loan waivers have brought forward the urgency of designing lasting solutions to the structural malaise that affects Indian agriculture. On the other, there are concerns about the macroeconomic and financial implications, how long they will persist in impacting the economy, the possible distortions that they could confront public policies with, and the ultimate incidence of the financial burden. Let me, in a modest way, try to eclectically address both sides of the debate. India's agrarian economy is the source of around 15 percent of GDP, 11 per cent of our exports and provides livelihood to about half of India's population. The importance of the sector from a macroeconomic perspective is also reflected in a significant flow of bank credit to finance agricultural and allied activities relative to other sectors of the economy. Outstanding bank advances to agriculture and allied activities have risen from about 13 per cent of GDP originating in agriculture and allied activities in 2000-01 to around 53 per cent in 2016-17 (Chart 1). In real terms (adjusted for inflation measured by the GDP deflator), the growth of bank credit to agriculture and allied activities accelerated from 2.6 per cent in the 1990s to 15.4 per cent during 2000-01 to 2016-17.

Chart 1: Scheduled commercial banks' outstanding advances to agriculture and allied activities as ratio to GDP from agriculture and allied activities



Note: 1. Since 2013-14, Rural Infrastructure Development Fund (RIDF) & other deposits outstanding with NABARD have been treated as part of credit to agriculture and allied activities.
2. Agriculture GDP refers to GDP from agriculture and allied activities at factor cost at current prices. Since 2011-12, GDP from agriculture refers to gross value added (GVA) from agriculture & allied activities (basic prices) at current prices.
Source: Reserve Bank of India.

Much of this credit flow has been propelled by the policy thrust on expanding credit to agriculture, especially through priority sector lending (PSL) stipulations. Public sector banks and private banks are required to lend 18 per cent of annual net bank credit (ANBC) or credit equivalent amounts of off-balance sheet exposures, whichever is higher, to agriculture. Under this carve-out, 8 per cent is prescribed for small and marginal farmers. Even foreign banks with 20 branches and above have to achieve this target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018. The share of outstanding advances to agriculture and allied activities in total priority sector advances has increased from 32.5 per cent in 2000-01 to 43.2 per cent in 2016-17 (Chart 2). Thus, without exaggeration, it is safe to say that financial flows to agriculture have been generous.

Chart 2: Outstanding advances to agriculture and allied activities as per cent of total priority sector advances

Source: Reserve Bank of India

The Government has also undertaken several measures to compensate for the adverse terms of trade and the inert institutional architecture confronting agriculture in order to improve the profitability of crop production. The Interest Subvention Scheme has been running for a decade under which banks and cooperative institutions extend short term crop loans of up to ₹ 3 lakh to farmers at a concessional rate of 7 per cent. Timely repayment is incentivised by an additional subvention of 3 per cent. The scheme also encompasses other benefits, including post-harvest loans for storage in accredited warehouses against Negotiable Warehouse Receipts (NWRs) for upto six months for Kisan Credit Card (KCC) holding small and marginal farmers at a concessional rate of 7 per cent in order to avoid distress sales. During 2017-18, the Central Government will provide interest subvention of 5 per cent per annum to all prompt payee farmers for short term crop loans of up to one year. Many farmers will thus have to effectively pay only 4 per cent as interest on loans contracted from these institutions. In case farmers do not repay the crop loans in time, they would still be eligible for interest subvention of 2 per cent. On June 14, 2017 the Government earmarked a sum of Rs. 20,339 crore for this purpose for 2017-18 as against the provision of Rs. 15,000 crore originally made in the Union Budget (Table 1). During 2016-17, the volume of short term crop loan lent stood at Rs. 6,22,685 crore, surpassing the target of Rs. 6,15,000 crore.

Table 1: Interest subvention for providing short term credit to farmers

	(Rs. crore)
Year	**Amount of subvention**
2009-10	2,011
2010-11	3,531
2011-12	3,283
2012-13	5,400
2013-14	6,000
2014-15	6,000
2015-16	13,000
2016-17 (RE)	13,619
2017-18 (BE)	20,339* (15,000)

* On June 14, 2017, Government earmarked a sum of ₹ 20,339 crore for this purpose for 2017-18 as against the amount of ₹ 15,000 crore indicated in the Budget Estimates for 2017-18.

Note: Under the scheme, interest subvention is provided to NABARD, Regional Rural Banks, Cooperative Banks, Public Sector Banks and Scheduled Private Sector Banks for providing short term credit to farmers at subsidized rate of interest.

Source: Union Budgets, Government of India.

Earlier, the Union Budget 2014-15 had put in place a scheme under which five lakh Joint Liability Groups of 'Bhoomi Heen Kisan' (landless farmers) will be financed through the NABARD in order to augment flow of credit to landless farmers cultivating land as tenant farmers, oral lessees or share croppers and small/marginal farmers as well as other poor individuals taking up farm activities, off-farm activities and non-farm activities. The experience of catalysing bank credit flows to agriculture and expanding the panoply of subventions begs the question: Are we substituting credit for other policy interventions? Indeed, this issue prompted, in 2014, RBI's Expert Committee to Revise and Strengthen the Monetary Policy Framework to recommend a revisit of the need for subventions on interest rates for lending to agriculture. Despite the sizeable volume of subsidized and directed credit flows as well as the various fiscal incentives, Indian agriculture is beset with deep seated distortions that render it vulnerable to high volatility. It has perennially been characterized by low investment, archaic irrigation practices, monsoon dependence, fragmentation of land holdings and low level of technology. Lack of property rights and low initial net worth of farmers add to the constraints. Consequently, considerable flux in output and prices is common, imposing large losses on farmers and potentially imprisoning them in a circle of indebtedness with disturbing frequency. Therefore, in the absence of coordinated and sustained efforts to put in place elements of a virtuous cycle of upliftment, loan waivers have periodically emerged as a quick fix to ease farmers' distress. A brief history of farm loan waivers in India may be in order. The first major nationwide farm loan waiver was undertaken in 1990 and the cost to the national exchequer was around Rs. 10,000 crores, which works out to Rs. 50,557 crores at current prices using the GDP deflator. The second major waiver was under the agricultural debt waiver and debt relief scheme (ADWD) of 2008 amounting to Rs. 52,000 crores (0.9 per cent of GDP) or Rs. 81,264 crores at current prices using the GDP deflator. Unlike the 1990 scheme that aimed at providing blanket relief to all farmers up to a certain loan amount, the 2008 scheme waived debt for certain classes of cultivators. In 2014, Andhra Pradesh and Telangana announced farm loan waiver of Rs. 24,000 crores and Rs. 17,000 crores, respectively. Beginning with Tamil Nadu in 2016, domino effects have spread in 2017 to several states and the total cost of loan waivers announced amounts to around Rs. 1,30,000 crores (0.8 per cent of GDP). I am sure that the proceedings today will dwell upon the details characterizing each scheme. Therefore, I will move on. The pros and cons of agricultural debt relief have been widely debated and literature has evolved around the theme. Alongside beneficial effects in terms of clearing the debt overhang of farm households, negative side effects in the form of faulty targeting of beneficiaries and resulting discrimination, incentivising wilful defaulters, and erosion of credit discipline have been cited. I am pleased to note that several luminaries driving the evolution of these ideas are present here today. Rather than attempting an uninformed evaluation, I am personally looking forward to the guidance of experts present here on various issues that intermingle around the subject. Let me now turn to the other side of debate - the implications for macroeconomic conditions and policies. The first impact of any loan waiver is on the balance sheet of lending institutions, be they formal or informal. This is inherent in the inevitable lags, in the timing of impact and the arrival of compensation from the government. In this interregnum, the quality of assets deteriorates and bridge provisions crowd out new loans. In the second round, loan waivers impact the state of public finances in the form of higher than budgeted revenue expenditure. This, in turn, has to be financed by additional market borrowings which push up interest rates, not just for the States but for the entire economy. A collateral damage is that private borrowers are crowded out of the finite pool of investible resources as the cost of borrowing rises. Even if the loan waiver is accommodated within budgetary provisions, it will force cutbacks in other heads of expenditure. Experience has shown that the most vulnerable category is capital expenditure. In turn, this will entail deterioration in the quality of expenditure and inter alia lead to adverse implications for productivity as asset forming investment, including for the sector itself - e.g., irrigation works, cold storage chains etc., - is foregone. If capital/infrastructural constraints are binding, a reduction in capital expenditure for the sector that would have benefitted from this expenditure could even be inflationary as costs - including time value/opportunity cost of delays and material damages - go up as a result of capacity constraints becoming even more acute and attendant “congestion charges”. If, on the other hand, budgetary provisions are exceeded, higher spending and widening of the fiscal deficit have, as experience has shown, inflationary consequences, and possible spillovers that could undermine external viability (the twin deficit argument). Also, research points to adverse welfare effects because, ultimately, loan waivers involve a transfer of resources from tax payers to borrowers. Consumption redistribution effects have also been reported. As you would have noted from these initial remarks, farm loan waivers have stirred up considerable passion and polarized opinions. While in no way detracting from the acute distress that farmers face with every disruption in crop cycles, it is important to recognize that there are externalities that spill over beyond the farm sector. Eventually, other economic agents and other parts of the economy get affected. How can these spill overs be minimized? How do we defray the incidence of the burden on tax payers? From a policy perspective, what needs to be done to move away from palliatives in the form of debt relief and into a more fundamental solution that enhances welfare all around? Many elements of this optimal approach are well known - crop insurance, infrastructure, irrigation, technology-enabled productivity improvements, and, opening up the farm economy to market forces and open trade. The Government's initiative to establish a nation-wide market for agricultural produce, through eNAM, the Pradhan Mantri Fasal Bima Yojana, the Pradhan Mantri Krishi Sinchai Yojana, the Paramparagat Krishi Vikas Yojana and the national drive towards financial inclusion for all are important initiatives in this direction. The coming to fruition of these initiatives holds the potential of achieving the mission of doubling farmers' income over time. We need to ensure that their benefits percolate down to all the intended recipients. I will refrain from either prejudging or influencing the rich discussions that are expected to occupy your minds during the rest of the day. I am sure that amidst the heat and dust, this seminar will shine light on the multi-faceted discourse on farm loan waivers. So I will stop here and wish you all success in your deliberations.

TOP BANKING NEWS

- **Huge Incentives To Staff Has Led To Mis-Selling:** A senior RBI official has blamed huge incentives given by banks to their staff for mis-selling financial products. Deputy governor Shri S.S. Mundra also urged lenders to work on the portability of accounts. Challenging targets set for employees, incentive-linked quotas, lack of training and fast rotation of frontline staff lead to mis-selling of products. In the past, Shri Mundra has warned banks of making "penal provisions more stringent to deal with the problem". Banks could deploy latest analytical tools to address customer grievances, lack of coordination between back and front offices was affecting measures towards customer protection. Banking Correspondents (BCs) are now equivalent to banking outlets, So banks should "pay close attention to services rendered by BCs, especially in rural and semi-urban areas, and take precautions to curb mis-selling of products and address the problem of illiterate customers getting duped by aggressive marketers of financial products. Shri Mundra urged the banks to work towards account number portability as the telecom industry has implemented, whereby a customer can retain his account number even if he switches to another bank. This "will be a far-reaching step towards enhancing competition and improving customer service. The banks should move away from seeking 'negative confirmation' from customers on legal agreements that often have several fine prints. Instead, banks should obtain 'positive confirmations' from customers that they have read and understood the terms and conditions of the product or the service.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/huge-incentives-to-staff-has-led-to-mis-selling-rbi/articleshow/59844876.cms

Dated: Aug 01, 2017

- **Banks Restructure Corporate Loans Of Rs 2.04 Lakh Cr In FY17:** The amount of corporate loans restructured by lenders has seen a decline in the last three financial years. Banks restructured loans, that were sanctioned to companies, of worth Rs 3,70,279 crore in FY2014-15 and Rs 2,99,111 crore in 2015-16.The amount of restructured corporate loans came down to Rs 2,04,884 crore in the last financial year, as per the data. Any restructuring is to be carried out in accordance with detailed guidelines issued by RBI on restructuring like Joint Lenders' Forum (JLF), Strategic Debt Restructuring (SDR) and Scheme for Sustainable Structuring of Stressed Assets (S4A). The names and details of borrowers are covered under section 45E of RBI Act, 1934 and banking laws which (the Act and banking laws) oblige financial institutions to maintain secrecy about the affairs of their constituents. On provision for restructuring of farm loans in case of natural calamities, banks can facilitate restructuring, including conversion of short-term debt to term loan or re-schedulement or repayment time-frame to such borrowers with benefit of retention of asset classification. For agricultural accounts that became impaired on account of reasons other than natural calamities, restructuring is allowed in terms of RBI guidelines on Income Recognition and Asset Classification (IRAC).

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/banks-restructure-corporate-loans-of-rs-2-04-lakh-cr-in-fy17/articleshow/59863896.cms

Dated: Aug 01, 2017

- **Savings Rate Cut To Boost SBI's NIM By 14 Bps, Says Report:** State Bank's saving account deposit rate cut will lead more lenders to follow suit and help widen the net interest margin by up to 0.15 per cent. As per Morgan Stanley, The benefit (on NIMs) could be 0.05-0.15 per cent. As per American brokerage, it will revisit its earnings estimates after the June quarter results are reported. It can be noted that a slew of lenders, especially among the aggressive private and foreign banks, have the saving deposit rate going up to 7 per cent as well. The brokerage has assumed that all the state-run banks' share of deposits under Rs 1 crore is at 90 per cent (at par with SBI) and the same for private sector banks is 80 per cent. If such a cut were to happen, the NIM gains for SBI and Punjab National Bank will be the highest at 0.14 per cent, followed by Bank of India at 0.11 per cent and 0.10 per cent for Bank of Baroda, ICICI Bank and Federal Bank. Explaining SBI's decision for the rate cut, bank was left with only two options after the aggressive marginal cost of funding based lending rate (MCLR) cut in January and the subsequent outflow of 60 per cent of the over Rs 1.5 trillion of the demonetization-linked deposits. Lower savings deposit rates will partly cushion - not offset - the pressure from lower asset yields, there will be "meaningful decline" in asset yields as base rate linked loans run off and MCLR linked loans reprice. Additionally, there is pressure on the bond book spreads from reinvestment risk and lower incremental spreads given loan mix change towards mortgages and high-quality corporate loans that can pressurise margins. The country's biggest lender had cut the rates by 50 bps to 3.5 per cent-the first time in over six years "muted credit demand and very high real interest rates".

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/savings-rate-cut-to-boost-sbis-nim-by-14-bps-says-report/articleshow/59865916.cms

Dated: Aug 01, 2017

- **RBI Plans To Extend Cyber Audit To All Banks:** The Reserve Bank of India is planning to conduct a cyber-audit of all banks in the country instead of just a few bigger banks as it did in the past, a policy shift that comes in the wake of an increase in cyber-attacks. The banks which do not have security measures in place as per the RBI standards will be given time to comply, failing which the regulator may initiate action. RBI is also expected to do a gap analysis on the basis of the reports and ask banks to bridge the gaps. Since last year, the RBI has been carrying out IT examination of banks separately from the regular financial examination of banks. Earlier, it used to conduct random cyber audits on banks and issue reports to them for remedial action. In 2015-16, as per the RBI data, nearly 16,468 cases related to cyber fraud were reported, including debit card, credit card and net banking breaches. The number was higher than 13,083 in the previous year, and 9,500 in the year before that. As per the Indian Computer Emergency Response Team (CERT-In) India witnessed more than 27,000 cyber-security threat incidents in the first half of 2017. Threats reported include phishing attacks, website intrusions and defacements or damages to data as well as ransom ware at tacks. In 2016, nearly 50,362 incidents related to cyber-security were reported while the number was 49,455 in 2015 and 44,679 in 2014. The cyber-security frame work requires banks to report any breach within two-three hours even if there is a suspicious breach. At national level there is CERT-in and now there will also be a Fin-CERT, which will deal with financial sector breaches, and the initial pilot of Fin-CERT will happen from RBI.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-plans-to-extend-cyber-audit-to-all-banks/articleshow/59856746.cms

Dated: Aug 01, 2017

- **SBI Move May Ignite A Rate War Among PSU, Private Banks:** Most leading banks have posted declines in net interest margins over the last one year. State Bank of India cut interest rate on savings bank accounts by 50 basis points to 3.5 per cent on balance of Rs 1 crore and below, after over six years of status quo. About 90 per cent of SBI's savings bank accounts have balances of under Rs 1 crore and this latest move could lead to a margin improvement of 10-15 basis points. Real interest rates are really high, the interest on savings bank was 3.5 per cent in April 2011 and there was a negative carry of nearly 5 per cent. But today if we look at inflation and all other benchmark rates there is a positive carry of nearly 2.4 per cent. The choice before the bank was either to raise MCLR or reduce the savings bank interest rate, we decided upon the latter. SBI's rate cut could ignite a rate war among the large state-run and private banks, but most mid-sized and small finance banks hungry to gain incremental market share could decide to hold rates. While the immediate savings for the bank will be reflected in its September quarter earnings, most analysts feel it is too early to evaluate if this would lead to a long-term margin improvement as most leading banks have posted declines in net interest margins over the last one year. Investors should view this as a leading indicator to continued softening of rates, while theoretically, this should result in savings in funding costs, we view this as structurally margin neutral. Prior to the interest rate deregulation in October 2011, SBI had maintained a savings bank interest rate of 3.5 per cent since March 2003. The state run lender held Rs 9.4 lakh crore as savings bank deposits at the end of June 2017, out of its total deposits of nearly Rs 20.5 lakh crore.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-move-may-ignite-a-rate-war-among-psu-private-banks/articleshow/59856566.cms

Dated: Aug 01, 2017

- **NCLT Admits Essar Steel's Insolvency Case, Satish Kumar Gupta Appointed As IRP:** State Bank of India's suggested interim resolution professional (IRP) Satish Kumar Gupta, of Alvarez and Marsal India, has been appointed as IRP. Essar Steel owes more than Rs 45,000 crore to lenders, of which Rs 31,671 crore had already been declared as non-performing as of March 31, 2016. The

SBI-led consortium of 22 creditors accounts for 93% of this amount. Essar Steel owes $ 450.67 million to SCB in debt. Both petitions filed by State Bank of India (SBI) and Standard Chartered Bank (SCB) for initiating insolvency proceeding under Insolvency & Bankruptcy Code (IBC) against the steel major Essar Steel Ltd have been admitted by NCLT. In its application, SCB has suggested appointment of Shri Dinkar Venkatasubramanian, Partner, Transaction Advisory Services, at consulting firm Ernst & Young as IRP. While SBI's application suggested Shri Satish Kumar Gupta of Alvarez and Marsal India to be appointed as IRP. After losing an intense legal battle at Gujarat High Court, Essar Steel got engaged with legal tussle at NCLT, where SBI and SCB fought to ensure admission of their insolvency application against Essar Steel and simultaneously the appointment of their interim resolution professional (IRP) under Insolvency & Bankruptcy Code, 2016. Earlier, Essar Steel had petitioned the Gujarat High court against its inclusion in the list of 12 defaulters to be tried at NCLT by the Reserve Bank of India (RBI) June's press release, saying that its restructuring proposal was at an advanced stage and that its financial & operational improvements since March 2016 have not been taken into account by RBI. On 17th July, Gujarat HC turned down Essar Steel's appeal, observing that the regulator and banks are empowered to do so, giving a boost to the government's efforts to clean up the country's bad-loan mess. Last week, SBI & SCB fought tooth & nail, to convince the NCLT's judge Shri Bikki Raveendra Babu that its insolvency application should be accepted against Essar Steel Ltd. As per the industry observers, NCLT's order would have a national implication on most of the other insolvency cases filed in various NCLT across the country as well on the banking and financial sector.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/nclt-admits-essar-steels-insolvency-case-satish-kumar-gupta-appointed-as-irp/articleshow/59877395.cms

Dated: Aug 02, 2017

- **Insolvency Board To Pull Up Firms Acting As Resolution Professionals To Banks:** The Insolvency and Bankruptcy Board of India (IBBI) is looking into a complaint that some professional service firms were acting as insolvency resolution professionals (IRPs) to help banks manage and restructure insolvent companies. Under law, professional entities can't enroll themselves as insolvency professional or become a member of another agency registered with the IBBI to do the job. According to an official aware of the matter, an independent IRP had written to the board accusing some firms of breaking this rule. The complainant alleged that invoices were raised by these firms and not the insolvency professionals, who in most cases were employees of the firms. There are about 800 individuals who are registered as IRPs. While professional service firms are barred from becoming an IRP, their executives can do so in their individual capacity. Most banks stay away from appointing people with no firm to back them as IRPs. The letter also states that there could be conflict of interest as some of the firms may have worked with these companies (in the past). The law is clear that only an individual can be the insolvency professional. There is a provision in the law on the issue of conflict of interest as well. People from EY, PwC, Deloitte, KPMG, Grant Thornton (GT), BDO and Alvarez & Marsal (A&M) are appointed or are in the process of being appointed in 12 insolvency cases currently under process.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/ insolvency-board-to-pull-up-firms-acting-as-resolution-professionals-to-banks/articleshow/59888060.cms

Dated: Aug 02, 2017

- **Banks May Need 20% Incremental Provisioning For 50 Large NPAs:** Banks may need to do an incremental provisioning of 20 per cent for 50 large stressed accounts to absorb any losses. These 50 large accounts are from the sectors such as construction, power and metals, among others and constitute about half of the gross non-performing assets of the banking sector. Banks may require an incremental provisioning of 20 per cent against cumulative debt of 50 large stressed assets worth over Rs 4.3 lakh crore. While banks may have already provisioned for a part of these exposures, they need to adequately capitalize to absorb such losses which could fuel credit growth and support the next leg of economic growth. On Insolvency and Bankruptcy Code (IBC), there is a need to address various challenges such as inter-credit conflicts, ability of large corporate to delay the recovery process and burden on the National Company Law Tribunal (NCLT)/ Debt Recovery Tribunal (DRT). Roll-out of the ecosystem including adequate number of tribunals, insolvency professionals and information utilities, a limited timeline for the formulation of resolutions and access to the secondary market are needed in case of liquidation for successful implementation of the IBC. The success of the code hinges on strengthening its ecosystem, which will help in protecting the interest of stakeholders, instilling financial discipline among borrowers and create a robust platform to attract investors. Though the IBC is expected to face teething troubles before fully taking off, its stakeholders are expected to reap greater benefit in the long run. Along with banks and asset reconstruction companies (ARCs), the IBC will benefit corporate, professionals and employees, boost investor confidence, and facilitate deepening of the domestic corporate bond market.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/banks-may-need-20-incremental-provisioning-for-50-large-npas/articleshow/59898077.cms

Dated: Aug 03, 2017

- **Bad Loan Resolution To Start Shortly, RBI To Take Up More Cases, FM Shri Arun Jaitley:** As per Finance Minister Shri Arun Jaitley, The process of resolution of bad loans will start shortly as it passed a bill which gives RBI the power to direct banking companies to resolve the problem of stressed assets. Tthe Reserve Bank has already identified top 12 loan defaulters and more cases will be taken up by them for resolution. No one can claim the right of equality in not paying banks back. RBI has taken up some difficult cases. The Banking Regulation (Amendment) Bill, 2017, seeks to amend the Banking Regulation Act, 1949 and replace the Banking Regulation (Amendment) Ordinance, 2017, which was promulgated in May this year. The bill was later passed by the Lok Sabha by a voice vote. Some laws were outdated and were acting as "impediment" instead of "expediting resolution". Moving on fast-track, the RBI had in June identified 12 large loan defaulters who account for 25 per cent of the total bad loans in the banking sector. Action under the Insolvency and Bankruptcy Code has already begun in certain cases, including Essar Steel, Bhushan Steel and Bhushan Power & Steel. The loans were given during the boom period before the 2008 global financial crises and the present government is trying to find a solution of the non-performing loans. PSU banks are leaders when it comes to lending for economic development and to industry. Private sector banks have safer portfolio and are more into retail banking. There is a risk in industrial financing and PSU banks do it". With stressed assets reaching "unacceptably high level", the government had brought the Bill replacing the Ordinance. The measure allows the RBI to initiate insolvency resolution process on specific stressed assets. The RBI would also be empowered to issue other directions for resolution, appoint or approve for appointment, authorities or committees to advise the banking companies for stressed asset resolution.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/bad-loan-resolution-to-start-shortly-rbi-to-take-up-more-cases-fm-arun-jaitley/articleshow/59900078.cms

Dated: Aug 03, 2017

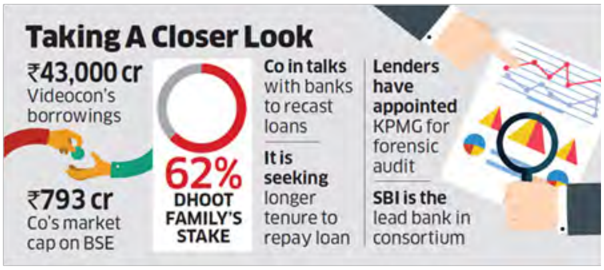
- **Cost Of Credit, NPA Positioning Restricting Banks To Cut MCLR:** As per SBI though the Marginal Cost of Funds-based Lending Rate (MCLR) is expected to be in tandem with the policy rates, banks are hesitant to reduce it due to cost of credit and deposits and NPAs positioning. The Reserve Bank of India (RBI) has cut the key lending rates by 25 basis points (bps). As far as the MCLR is concerned, it is a function of multiple components. It is intended that the MCLR is in tandem with policy rates. But other factors like the cost of deposit and cost of credit which are a critical determinant of MCLR and also non-performing assets (NPAs) positioning, are restricting banks from cutting the MCLR, the policy rates are a critical component but not the only component affecting the MCLR. The banking system is rolling into a lot of liquidity and they would like to deploy that liquidity into the right kind of investments and projects coming up for consuming this kind of liquidity. The advances growth in general is 6 per cent in the current fiscal while the retail advances are doing well at 10-12 per cent. Retail advances are still linked to base rate while the corporate advances are getting aligned to the MCLR. Banks are willing to lend at the right kind of price.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/cost-of-credit-npa-positioning-

restricting-banks-to-cut-mclr-sbi/articleshow/59900858.cms

Dated: Aug 03, 2017

- **SBI-Led Banks Order Forensic Audit Of Videocon's Accounts As A Precursor To Debt Recast:** A SBI-led consortium of lenders has ordered a forensic audit of Videocon Industries accounts to find out whether the company foundered because of adverse business conditions or financial mismanagement. The move is preliminary to the start of debt restructuring after Videocon defaulted on loans worth Rs 43,000 crore. KPMG, one of the Big Four audit firms, will conduct a thorough inspection of the accounts of the group, which has interests that range from television manufacturing to oil exploration in Africa. Loan recast proceedings under the Insolvency and Bankruptcy Code (IBC) could be kicked off once KPMG finishes its report. Lenders and promoters are now looking at restructuring of the loans and before they go ahead with it, it has been decided to conduct a forensic audit. Indian banks have become increasingly wary of taking decisions based on the discretion of management after the arrest of five IDBI Bank officials, including its former chairman and managing director, in the Kingfisher Airlines loan default case. If the audit finds that an adverse business environment was responsible, bankers can go ahead with restructuring loans or file charges if the report is adverse. As per Videocon Industries chairperson, the company will meet its obligations but wanted more time. The account has turned into non-performing loans since we were not able to service the principal part. While many small lenders such as Dena Bank have classified the loans as bad and began making provisions for them in the March quarter, bigger ones are in the process of doing so in the June quarter. Punjab National Bank and Central Bank of India have classified Videocon Industries loans as bad, and State Bank of India may do so when it announces results on August 11. A forensic report will also give lenders a clear idea of the liquidity position of the company, whether there has been any diversion of funds, misappropriation of assets, and non-compliance with regulatory norms. Lenders have been seeking to persuade the Shri Dhoot family, Videocon's promoters, to invest equity in the company by March 2017 or sell non-core assets. Following this, the company has put its real estate assets up for sale and has urged banks to buy some of them so loans can be repaid. Videocon House in Mumbai was recently sold for Rs 300 crore.



Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-led-banks-order-forensic-audit-of-videocons-accounts-as-a-precursor-to-debt-recast/articleshow/59906297.cms

Dated: Aug 04, 2017

- **Banks Lap Up Priority Sector Lending Certificates For Meeting Priority Lending Targets:** The new priority sector lending certificates (PSLCs) which are being traded through a Reserve Bank of India-promoted platform appear to have caught the fancy of treasury heads of banks, especially Citibank

India, HDFC Bank and YES Bank, with the PSLC market estimated to have seen Rs 40,000 crore worth of trades in the first quarter. Banks, with deficit in priority sector loans, can buy PSLCs from banks with surplus priority loans to bridge the gap for of a fee and without any real transfer of assets. This instrument, introduced last fiscal, has substituted the complex securitization or direct assignment structures for buying or selling priority sector loans. PSLC is being traded exclusively between banks while non-banks aren't allowed to do so. Experts feel that the new mechanism may initially bring some challenges to the securitization market with the volume of securitization in the first quarter coming down by around 15% to Rs 15,000 crore, compared with Rs 17,000 crore in the year-ago period, according to a Crisil estimate. The introduction of PSLCs in the early part of fiscal 2017 is estimated to have had a negative impact on both securitization and inter-bank participation certificate (IBPC) volumes. Given their ease of purchase and absence of risk transfer, PSLCs quickly gained currency. There has been substantial demand for PSLCs from private and foreign banks, especially the foreign ones with less than 20 branches as they are mandated to increase their priority sector loan proportion by 2% annually till 2020. Last fiscal, about Rs 49,800 crore of PSLCs were traded between banks bypassing the securitisation and IBPC routes — to meet their priority-sector lending mandate. Despite this, securitisation volume last fiscal grew 47% year-on-year to Rs 1,02,500 crore, riding on transactions of non-priority sector loans. Securitisation, on the other hand, is done through pooling of loans and selling them to another lender by issuing pass through certificates issued by trusts or special purpose vehicles, or selling them bilaterally via a process called direct assignment of loans. PSLC is preferred over other instruments, as they allow banks to leverage on their strength in a particular segment of priority lending such as agri lending, small farmer financing and MSMEs. It also incentivizes banks having surplus in their lending to priority sector categories by way of earning premium on selling the PSLC. No capital provisioning is required as this is an off-balance sheet investment, whereas IBPC, securitisation and DA require capital provisioning. Furthermore, the transactions are completely digitalized and enables market dynamics to decide on the pricing of the instruments. The Crisil study showed that around 55% of the PSLCs traded are related to loans to small and marginal farmers. Bandhan Bank, with about 90% of their Rs 21,400-crore loan portfolio being contributed by micro loans, has sold loans worth Rs 1,000 crore using PSLCs in the past two quarters. The biggest advantage is our portfolio does not get reduced even after selling the PSLCs.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/banks-lap-up-priority-sector-lending-certificates-for-meeting-priority-lending-targets/articleshow/59945097.cms

Dated: Aug 06, 2017

- **Bank Unions Call For All-India Strike On August 22:** Bank employee unions have called for a nation-wide strike on August 22 to protest against privatization and merger of public sector banks, among other demands.

The All India Bank Employees Association (AIBEA), which represents nine bank unions and employees of public and private sector banks, has called for a nation-wide strike on August 22 to press for various demands. Nearly 10 lakh employees would participate in the strike to protest plans to privatise public sector banks, merger and consolidation of banks and other demands including not to write-off Non-Performing Assets (NPAs) in banks. Some of the demands put forth by the unions include declaring willful default of bank loans as criminal offence, implementation of the recommendations of Parliamentary Committee Giving some financials, bad loans that were written off by State Bank of India group in the last five years stood at Rs 93,041 crore. While bad loans by the country's largest public sector lender State Bank of India as of 2016-17 was Rs 20,339 crore, for SBI Group as a whole it was Rs 27,574 crore.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/ nationwide-bankers-strike-on-august-22/articleshow/59954716.cms

Dated: Aug 07, 2017

- **PSU Banks Write Off Rs 2.49 Lakh Crore Of Loans In 5 Years:** Public sector banks have "written off" nearly Rs 2.5 lakh crore loans in the last five financial years. As many as 27 public sector banks, including SBI and its five associates, in 2016-17 have written off Rs 81,683 crore, the highest in the last five fiscals. The amount was 41 per cent higher than that in the previous fiscal. SBI and its erstwhile associates alone have written off Rs 27,574 crore in 2016-17, according to the RBI data on "write offs" done by public sector banks. SBI merged its five associate banks with itself from April 1 2017. The written off amount by PSU banks soared from Rs 27,231 crore in 2012-13 to Rs 57,586 in 2015-16 and further to Rs 81,683 crore in 2016-17. During 2013-14, write off figure was Rs 34,409 crore which rose to Rs 49,018 crore in the subsequent fiscal. So, the cumulative amount written off in the last five fiscals ending March 2017 was Rs 2,49,927 crore. Punjab National Bank has written off Rs 9,205 crore, followed by Bank of India (Rs 7,346 crore) and Canara Bank (Rs 5,545 crore) in 2016-17. Among other PSU banks, Bank of Baroda has written off Rs 4,348 crore, followed by Corporation Bank (Rs 3,574 crore), Indian Overseas Bank (Rs 3,066 crore) and IDBI Bank (Rs 2,868 crore). As per the RBI norms, loans are written off after making adequate provisions to take advantage of tax benefits. In respect of technical write-offs, the RBI has permitted write- offs at headquarter level while recovery efforts are still continued at branch level. It is to be noted that the gross NPAs of public sector banks were 12.47 per cent of gross advances as on March 31, 2017. Gross advances were Rs 51.42 lakh crore while gross NPAs were Rs 6.41 lakh crore. As on March 2016, gross advances were Rs 51.04 lakh crore while gross NPAs were Rs 5.02 lakh crore. So as a percentage it works out to be 9.83 per cent. The CPI(M) has demanded an explanation from the BJP on state-run banks loan write off to the tune of Rs 81,683 crore in 2016-17.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/psu-banks-write-off-rs-2-49-lakh-crore-of-loans-in-5-years/articleshow/59958147.cms

Dated: Aug 07, 2017

- **Bankers Review Progress of 12 Large NPA Accounts Under IBC:** Leading bankers have reviewed the progress on the 12 large stressed accounts named by the Reserve Bank resolution for action under the Insolvency and Bankruptcy Code (IBC) here. The Internal Advisory Committee (IAC) of the Central bank had on June 13 directed the banks to refer 12 non-performing accounts to the National Company Law Tribunal for possible liquidation process. Together, they account for a quarter of the total Rs 8 trillion of NPAs. Out of these 12 accounts, nine have already been referred to the NCLT, while Lanco Infra, Jaypee Infratech and Era Infra are yet to be admitted. The IAC has referred all accounts whose fund and non-fund based loans are greater than Rs 5,000 crore, with 60 per cent or more classified as non-performing assets by banks as of March 2016, to the NCLT.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/bankers-review-progress-of-12-large-npa-accounts-under-ibc/articleshow/59958324.cms

Dated: Aug 07, 2017

- **Incred, Aion, Warburg Vie For CSB Stake:** InCred Finance, backed by former Deutsche Bank co-CEO Shri Anshu Jain, is competing with US private equity giant Warburg Pincus and Aion Capital for a controlling stake in Catholic Syrian Bank after negotiations between the Kerala-based lender and Canadian billionaire Shri Prem Watsa-controlled Fairfax hit a roadblock. The new set of investors is expected to make formal offers by September. The 97-year-old bank is held by Bangkok-based Indian businessman Surachan Chansri Chawla along with a few high net worth individuals and some private equity funds. Earlier this year, Fairfax made a formal offer valuing the bank at around Rs 1,300 crore. But the Canadian firm has left the negotiations after some minority investors demanded a higher valuation. There was no response to an email sent to Warburg Pincus while Aion declined to comment. The former co-head of Deutsche Bank's corporate banking business in the Asia Pacific set up the non-banking, new-age financial services company about six months ago with the support of Jain. Manipal Group's managing director and CEO Shti Ranjan Pai and Shri Gaurav Dalmia, chairman of Landmark Holdings (Dalmia Group), have also backed the firm with strategic investments. The Centrum Group is not in discussion with Catholic Syrian Bank for a stake in the bank. In the past, the fund has invested in Kotak Mahindra Bank, which it almost fully exited last year with stellar returns, and owns a significant stake in Au Financiers. It owns 90% of Capital First. Aion, a JV between Apollo Global Management and ICICI Venture, is a special situation investor and has raised close to $1billion. The bank reported profit of Rs 1.55 crore in FY17 against a loss of Rs 149.72 crore the year before. Gross non-performing assets stood at Rs 600.10 crore in the fourth quarter.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/incred-aion-warburg-vie-for-csb-stake/articleshow/59962080.cms

Dated: Aug 08, 2017

- **Banks To Shut Out Builders Without RERA Listing:** Builders who have been thinking of ways to beat the new Real Estate Regulation Act are fast running out of time as banks, in consultation with the Reserve Bank of India, have decided not to extend loans to those projects which have not been registered under RERA. Banks have also sought additional collateral, including on personal properties of promoters, as guarantees while disbursing loans to a few real estate developers. Under the new law, Real Estate (Regulation and Development) Act, 2016 (RERA), a developer will have to maintain 70% money collected from homebuyers in a separate account, which would leave them with only 30% of the sales proceeds to use for any other purpose, against 100% earlier. Despite the real estate industry body pushing developers to register under RERA, the turnout has been rather dismal so far. The spirit of RERA is to ensure that homebuyers shouldn't suffer. While developers are applying for registration, the infrastructure at the authority's level needs to be beefed up to ensure speedy processing of the same. Speed is crucial here because homebuyers are waiting for possession and we cannot further our marketing or financing efforts until we get registered. The government enacted RERA and all the sections of the Act have come into force with effect from May 1 this year, and the builders had three months to register their new and ongoing projects with their respective state RERAs. According to RERA, which aims to improve transparency in real estate sector and protect homebuyers' interest, builders are expected to disclose project-related information, including project plan, layout and government approvals-related information to prospective customers. Any major changes in the project can only be done after receiving the consent of two-thirds of homebuyers in that project. To avoid diversion of funds, RERA mandates that developers should maintain 70% of the funds collected from buyers in a separate bank account in case of new projects. Maharashtra, apart from Punjab and Madhya Pradesh, was one of the first states to notify its rules under the Act and establish MahaRERA. Until the midnight of July 31 deadline, the regulator had received total 10,852 applications for registration of ongoing projects across Maharashtra, which has now crossed 12,000.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/banks-to-shut-out-builders-without-rera-listing/articleshow/59962144.cms

Dated: Aug 08, 2017

- **Ensure Safety Of Customers' Lockers:** The Reserve Bank has asked banks to ensure customers' lockers remain safe and there is "no negligence" that could render banks liable to claims by locker holders. Besides, banks are being probed by fair trade regulator CCI for alleged cartelization in providing locker services to their customers. There is no specific circular by the Department of Financial Services asking banks to compensate customers for theft of articles from bank lockers. The banks have been advised by the RBI that it would be the responsibility of the banks to ensure the lockers remain safe and there is no negligence in the matter of safeguarding the lockers that could render the banks concerned liable to claims by locker holders. The Competition Commission of India (CCI), in May, received a complaint alleging cartelization among banks in respect of providing locker services to customers.

The case has been registered arraigning 20 banks, including RBI, as opposite parties. An RTI disclosure by the Reserve Bank of India (RBI) and 19 PSU banks, in June, they were not liable to damage to the locker contents by any cause, including fire or natural calamities. The burglary is beyond the security cover provided by a bank. Consumer rights expert and founder of Consumer Online Foundation. The government, the RBI and the banking industry cannot wash of their hands and earn money from consumers and not be made liable or accountable for quality of service for which the customers are paying rental.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/ ensure-safety-of-customers-lockers-rbi-to-banks/articleshow/59969980.cms

Dated: Aug 08, 2017

- **RBI Has Asked Banks To Go For Periodic Vulnerability Test:** Cyber security preparedness is a continuous activity and the RBI has asked banks to periodically conduct vulnerability test. RBI has issued Cyber Security Framework in Bank to help them deal with any future cyber attacks. According to the Reserve Bank, 'WannaCry' ransomware attacks were reported from banks during May and June this year and a few computers in two bank branches and one ATM unit were impacted "though no data loss was reported". The RBI had issued advisories to banks in relation to ransomware attacks, regarding application of relevant patches in and update of anti-virus software for all systems. The RBI has "apprised that the performance" of banks in this regard is closely monitored through both on-site and off-site assessments. To another question related to cloning of credit and debit cards, 6,811 cases of frauds related to credit cards and 15,792 ATM and debit cards were reported during the last financial year. The total amount involved was Rs 204 crore. The public sector banks had 8,915 willful defaulters involving Rs 92,376 crore at March-end 2017. Action has been initiated in 5,954 cases involving Rs 69,439 crore under the SARFAESI Act (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act).

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-has-asked-banks-to-go-for-periodic-vulnerability-test-government/articleshow/59972022.cms

Dated: Aug 08, 2017

- **HDFC Bank Increasing Its Term Financing Exposure Riding On Demand:** HDFC Bank is slowly increasing its term financing exposure riding on demand for financing from the road and power transmission sector as it seeks to diversify its balance sheet. Though working capital loans still dominate the bank's corporate balance sheet, it is increasing looking at term loans especially refinancing opportunities. Though 80% to 85% of our loans were working capital loans, it was not as if we were averse to term financing. But as our balance sheet has increased we have to diversify our lending as well. There are increasing opportunities in refinancing, even though private capex is yet to kick in. Loans to companies or wholesale loans made up 46% of the bank's loan book as of June 2017. The bank's total advances as of June stood at Rs 5.80 lakh crore out of which 30% were term loans, up slightly from 27% a year ago. HDFC Bank is looking at opportunities especially in road projects under the Hybrid Annuity Model (HAM) under which is a mixture of the Built Operate Transfer (BOT) and Engineering Procurement and Construction (EPC) models in road development. HDFC Bank was ranked number one among banks in India by a annual survey of US based Greenwich Associates on the basis of interviews with CFOs and treasurers of 500 middle market and large companies.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/hdfc-bank-increasing-its-term-financing-exposure-riding-on-demand/articleshow/59973496.cms

Dated: Aug 08, 2017

- **More Indians Going Online For Banking, Survey:** More Indians are now using a mobile banking app or going online rather than just talking to a banking adviser on phone to address complex issues. The survey, 'Customer Experience in Banking', by global tech company Avaya, which covered India, Britain, Australia and the UAE with 5,000 respondents, showed that customers in India were more likely to use a mobile banking app than customers in the other three countries. According to the findings, 26 per cent of Indian customers prefer to access services via bank's website. The same number prefer mobile app rather than talking to a human agent compared to 19 per cent in Australia, 21 per cent in Britain and 24 per cent in the UAE. The report added that 58 per cent of Indian customers wanted to be alerted about a problematic or fraudulent transaction and 49 per cent want to be alerted when their credit card is up for renewal. This is the highest in all four countries. Customers use varied touch-points to access services, be it mobile app, website, contact centre or physical visit to a branch. The most important factor for Indian customers is to have issues resolved on the first point of contact, with 37 per cent saying they would change banks after a bad experience, second only to the UAE. Twenty-five per cent of Indian consumers are likely to voice their complaints on social media platforms compared to 15 per cent in the UK, while 44 per cent would let friends and family know about their issues. Customers today are looking for elevated and seamless services, and if they don't get them they will look elsewhere.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/more-indians-going-online-for-banking-survey/articleshow/59986098.cms

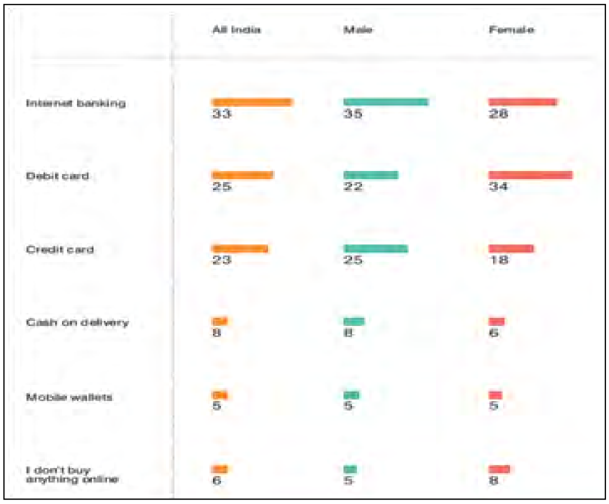
Dated: Aug 09, 2017

- **Government To Initiate Banks' Consolidation Process After Q1 Numbers:** The finance ministry is expected to initiate the process of consolidation of Public Sector Banks (PSBs) once the first quarter results of the current fiscal have been announced. There are various things including financial performance which have to be looked at before a merger decision is taken. There are factors like regional balance, geographical reach, financial burden and smooth human resource transition that have to be looked into while taking a merger decision, adding that there should not be the merger of a very weak bank with a strong one as it could pull the latter down. So, it is going to be a complex exercise. The finance ministry had called few banks including Dena Bank some months ago to get a sense from them about their financial position like capital adequacy ratio and NPAs and CBS technology that they operate on. There is no proposal for consolidation of PSBs at present. There is no such proposal under the consideration of the government for consolidation of PSBs at present. In the last consolidation drive, five associates and Bharatiya Mahila Bank (BMB) became part of SBI on 1 April 2017, catapulting the country's largest lender to among the top 50 banks in the world. State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT), besides BMB, were merged with SBI. With the merger, the total customer base of the SBI reached around 37 crore with a branch network of around 24,000 and nearly 59,000 ATMs across the country. The merged entity began operations with a deposit base of more than Rs 26 lakh crore and advances level of Rs 18.50 lakh crore. The government in February had approved the merger of these five associate banks with SBI. Later in March, the cabinet approved merger of BMB as well. SBI first merged State Bank of Saurashtra with itself in 2008. Two years later, State Bank of Indore was merged with it.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/ government-to-initiate-banks-consolidation-process-after-q1-numbers/articleshow/59988644.cms

Dated: Aug 09, 2017

- **People Still Prefer Websites And Cards To Mobile Wallets (Morgan Stanley):** According to an estimate by New York-based financial services firm Morgan Stanley, Demonetization of high-value currency notes last year gave a big push to mobile wallets. India's mobile wallet transactions were up nine-fold in two years to reach $9 billion as of April 2017. However, mobile wallets are still not the preferred mode for online/mobile payments. Urban internet users prefer net banking, debit cards, credit cards and even cash on delivery to mobile wallets. In the report, internet banking emerges as the most preferred mode of online/mobile transactions followed by debit and credit cards. Mobile wallets still have a long way to go in the Indian market. The penetration across asset categories, detailed (individual & household) profile, current usage of the financial products and their future intent with approximately 10,000 respondents, all urban internet users. Thirty-three per cent of urban internet users surveyed prefer net banking for online/mobile payments, 25 per cent prefer debit card and 23 per cent prefer credit card. Only 5 per cent prefer mobile wallets to make online/mobile payments, even fewer than 8 per cent who prefer cash on delivery. The ubiquitous cash continues to be a popular means of payment, despite the



demonetization drive. The launch of UPI and the BHIM (Bharat Interface for Money) app marks the onset of another era in the digital payments landscape in India. While e-wallets have huge numbers to flaunt, the BHIM app is gaining steam. According to experts, in the long term, systems like UPI stand a better chance as they enable direct transfer from bank accounts to pay.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/people-still-prefer-websites-and-cards-to-mobile-wallets/articleshow/59989656.cms

Dated: Aug 09, 2017

- **Digital Transactions In July Touch 859.2 Million:** Digital transactions in July grew almost 2% from the previous month to touch 859.2 million, according to provisional data released by the Reserve Bank of India. While digital payments have witnessed a growth trajectory over the last few months, wallet transactions and card payments have come off the highs on increased cash circulation. July has been a positive growth story in that context, with all modes of transaction picking up on a month-on-month basis. Wallets or prepaid payment instruments grew almost 5% to clock 88.7 million transactions compared with 84.7 million in June. It was the highest in May at 91.3 million transactions. The central bank has been releasing monthly figures for digital transactions following the government's move to de-recognize high-denomination currency notes last year. These monthly figures help in tracking the major modes of digital payments across cards, wallet, unified payments interface (UPI) and immediate payment system (IMPS). These numbers are provisional figures sourced from National Payments Corporation of India and include the top four banks and top eight wallet players, as per definition of the central bank. The industry is waiting for the next tipping point to give the next round of push for digital payments. With players like WhatsApp planning to enter the payments space, payment banks ramping up operations and also the government coming out with its push, there is expected to be another round of growth for digital payments. Other than wallets, UPI, the poster boy of digital payments for the government, showed a strong growth of 11.7% in July, registering 11.4 million transactions against 10.2 million in June month and 9.2 million in May. While smartphones based payments have picked up post the government's push, the major driver of growth has been debit card payments over Point of Sales (PoS) terminals. With their much larger volumes, debit cards transactions have seen 1.7% month-on-month growth. In July, card transactions clocked 236.4 million against 232.4 million in the previous month

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/digital-transactions-in-july-touch-859-2-million/articleshow/59994667.cms

Dated: Aug 10, 2017

- **Bank of India To Shore Up Rs 8000 Crore Capital This Year:** Bank of India may have just turned around and is planning to raise Rs 8,000 crore in capital to be ready to buy a bank as and when the government sets in motion the consolidation process. The bank reported a net profit for the June quarter and its accretion of bad loans also slowed. The recovery may gather pace in coming quarters unless there is an external environment induced surprise. Bank is poised for growth from here onwards if there are no big surprises. The bank in its June quarter reported net profit was at Rs 87.7 crore compared with Rs 741 crore loss a year ago. Recoveries of bad loans and gains from treasury operations aided the profits. The bank has sought Rs 2,500 crore capital from the government this fiscal and plans to raise the remaining from the market. It would also sell non-core assets, which includes a 30 per centstake in STCI Finance, a non-deposit taking finance company where it expects to earn at least Rs 626 crore. The bank's non-interest income which includes fees from guarantees and selling insurance and mutual funds, and treasury operations, rose 30 per cent to Rs 1,611 crore. Its core net interest income-difference between interests earned and interest spent-fell 8 per cent to Rs 2,533 crore. The bank's total stressed portfolio is at 16 per cent of total loans, which includes gross non-performing and restructured loans. Its provisions stood at Rs 2,156 crore. In notes to accounts bank will need to make Rs 915 crore provisions in coming quarters for the 12 large cases that are admitted under bankruptcy court. Net interest margin was at 1.99 per cent, down from 2.2 per cent a year ago. The slippages from standard loan category to bad loan basket was Rs 4,037 crore against Rs 6,233 crore a year ago and recoveries of bad loans stood at Rs 1,360 crore against Rs 970 crore a year ago.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/bank-of-india-to-shore-up-rs-8000-crore-capital-this-year-says-md/articleshow/59988696.cms

Dated: Aug 10, 2017

- **Top 3 Private Banks Double Their Loan Write-Offs In Fy17 At Rs 20,000 Cr.:** Country's top three private banks ICICI Bank, HDFC Bank and Axis Bank have "written-off" loans worth Rs 44,137 crore in five years, nearly half of that were in the financial year 2016-17. The amount written off by the three banks in FY17 stood at Rs 19,783 crore, more than double as compared to Rs 7,292 crore in FY16, as per the banks' annual reports. This is just below half of the loans written-off over five years. ICICI Bank had written off the highest amount of loans at Rs 15,175 crore in FY17, while HDFC Bank and Axis Bank had written off Rs 2,386 crore and Rs 2,222 crore, respectively, (including some asset sales) during the financial year. While a report showed that 27 public sector banks made write-offs of Rs 2.5 lakh crore worth of loans in the last five years, in FY17 alone, the banks have written off Rs 81,683 crore, the highest in the last five fiscals (from 2013 to 2017). The amount was 41 percent higher than that in the previous fiscal. As per the RBI norms, loans are written-off after making adequate provisions to take advantage of tax benefits. In respect of technical write-offs, the RBI has permitted write- offs at headquarter level, while recovery efforts would continue by the banks at their branch level. State Bank of India and its erstwhile associates alone have written off Rs 27,574 crore in 2016-17, according to the RBI data on "write offs" done by public sector banks. SBI merged its five associate banks with itself from April 1, 2017. According to All India Bank Employees' Association (AIBEA), bad loans written off by the SBI group in the past five years stood at

Rs 93,041 crore. After SBI cut interest rates on savings deposits last week. People should not be penalized for corporate default and banks' inability to recover those loans. SBI has gain Rs 4,400 crore per year by reducing the savings deposit interest but see how much they have sacrificed by the write-off of bad loans of big corporate. The amount written off by PSU banks soared from Rs 27,231 crore in 2012-13 to Rs 57,586 crore in 2015-16, and further to Rs 81,683 crore in 2016-17. During 2013-14, write-off figure was Rs 34,409 crore which rose to Rs 49,018 crore in the subsequent fiscal. Therefore, the cumulative amount written off in the last five fiscals ending March 2017 was Rs 249,927 crore. Gross Non-Performing Assets (NPAs) of public sector banks were 12.47 percent of gross advances as on March 31, 2017. Gross advances were Rs 51.42 lakh crore, while gross NPAs were Rs 6.41 lakh crore.

Source: http://www.moneycontrol.com/news/business/economy/top-3-private-banks-double-their-loan-write-offs-in-fy17-at-rs-20000-cr-2354937.html

Dated: Aug 09, 2017

- **Bank Of India Recalls Rs 306 Cr. Loan To HDIL Arm:** In what seems to be more trouble brewing for real estate developer HDIL, state-run lender Bank of India has recalled a Rs 306-crore loan given to HDIL subsidiary Privilege Power and Infrastructure. This comes after Union Bank dragged group firm Guruashish Construction to the National Company Law Tribunal (NCLT). The recall notice, has been served by Bank of India through its law firm MDP and Partners. The notice names Shri Rakesh Wadhawan, executive chairman, HDIL, and Shri Sarang Wadhawan, MD, HDIL, as guarantors to the loan. HDIL has also been named as the corporate guarantor. Despite repeated requests and reminders, you have failed and neglected to make payments to our client. Even though you admitted the debts, you have failed and neglected to regularize your account and make repayment to our client. The bank has also called on the company and guarantors to pay outstanding dues, failing which the lender would initiate legal proceedings against the company . The account was classified as a non-per forming asset on March 31, 2016, by Bank of India. The term loan was issued in 2013, and there's an outstanding of over Rs 300 crore, but we haven't received any word from the company about when the repayment will happen. The real estate developer is fighting a similar case with Central Bank of India where the lender had taken symbolic possession of its Kurla property after it had failed to pay Rs 144 crore. According to the company, it will soon clear its dues it owes to Central Bank of India. HDIL had reported a net profit of nearly Rs 61 crore at the end of March 2017, a rise of 28 per cent over a year ago. Its total income, however, declined 61 per cent from a year-ago period to Rs 132.09 crore. The developer's debt-equity ratio as on March end stood at 0.22 times as against 0.27 times a year earlier. Just a week back, HDIL informed stock exchanges that insolvency proceedings had been launched against one of its subsidiaries Guruashish Construction following a Rs 250-crore default.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/bank-of-india-recalls-rs-306-cr-loan-to-hdil-arm/articleshow/59998503.cms

Dated: Aug 10, 2017

- **Bank NPAs Saw A Significant Growth During Jan-Jun:** Banks with operations in India witnessed a significant rise in non-performing assets during the first half of 2017. As per a survey carried out for January-June revealed that NPAs in public sector banks shot up considerably, with 91 per cent respondents from public sector banks reporting an increase. Twenty public, private and foreign banks participated in the survey, which together represent 64 per cent of the banking industry, as classified by asset size. Meanwhile, 71 per cent private and 50 per cent foreign bank respondents stated that their bad loans have increased during January-June. Metal, infrastructure and textile industries have recorded high level of NPAs with at least 50 per cent of total respondents stating the same. In the next six months (Jul-Dec 2017), participating banks expect sectors like infrastructure, automobiles and pharmaceuticals to drive credit growth. Lenders also expressed hope that amendment of the Banking Regulation Act along with Insolvency and Bankruptcy Code will help in resolution of stressed assets, which have ballooned in the recent past. The banks suggested easing of provisioning norms for stressed assets and strengthening of legal infrastructure to facilitate quicker disposal of bad loans cases. The survey has been conducted at a time when NPAs are at a worrisome position, especially for the public sector banks. The participating banks gave several suggestions to deal with the stressed assets. One is to set up industry committees to determine valuation of large stressed accounts and get big PSUs in respective sectors to bid for the accounts at such valuations. About 35 per cent reported tightening of credit standards for large enterprises during the first half of 2017 and about 40 per cent expect further tightening in the next six months. During January-June, a majority (75 per cent) of the respondent banks have reduced their Marginal Cost of Funds based lending rate, with 45 per cent of banks reducing it by more than 50 basis points, aided by adequate liquidity and low cost deposits. The survey observed that infrastructure sector continues to witness the largest increase in long term loans. A majority welcomed the suggestion from the RBI about setting up of specialized Wholesale and Long Term Finance Banks. Bankers' views were also sought on consolidation of other public sector banks post SBI merger. Some participating banks suggested exploring avenues of privatization alongside merger of PSBs.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/bank-npas-saw-a-significant-growth-during-jan-jun-survey/articleshow/60008452.cms

Dated: Aug 10, 2017

- **Why RBI's Shri Urjit Patel Should Follow Former FED Chairman Shri Ben Bernanke's 'Operation Twist':** Dr. Y.V. Reddy as Reserve Bank of India governor had many run-ins with the government. One such prominent event was when he articulated the usefulness of Tobin Tax to temper overseas fund flows. In an unprecedented move, the then Finance Minister, Shri P. Chidambaram, forced the governor to recall his speech and clarify that no such proposal was on the horizon. That was January 12, 2005. The flow of US dollars fuelled asset prices across the board from real estate, to stocks, to commodities, to precious metals. That lulled corporate into believing easy money is forever. When the tide turned those with dollar liabilities were whipsawed. Within a few years of tackling the problem of plenty with the Greenback during Shri Reddy's tenure, the country quickly moved to scarcity under Governor Shri Duvvuri Subbarao in 2013. Shri Subbarao and his successor, Shri Raghuram Rajan, worked overtime to arrest the collapse of the rupee and come up with yet another special scheme to bring in US dollars. Come 2017, life at the Reserve Bank of India (RBI) appears to have come a full circle. Yet again, it is a problem of plenty. The foreign exchange reserves are at a record high of $393 billion. The RBI has purchased about $50 billion from the market this year both from the spot as well as the forward markets to slow currency appreciation. But that's not helping. Despite the Federal Reserve's U-turn to normalization, the US dollar tide doesn't appear to be turning anytime soon. Contrary to textbook economics, which says that a reduction in interest rate will lead to a fall in the value of a currency, the Indian rupee rose to a two-year high when the Monetary Policy Committee cut the benchmark interest rate last week. Something is amiss. India's current high real interest rate of about 4% along with its prudent policies of inflation targeting, and a tight fiscal policy, are drawing yield hungry global investors. Overseas investors net bought Indian stocks and bonds worth a record Rs 1.75 lakh crore in 2017. The fact that global investors have almost exhausted their limits of Rs 4.32 lakh crore in both sovereign and corporate debt indicate how lucrative it is to own Indian fixed-income instruments. The trust of global investors may be a matter of pride for an emerging economy like India, but it may be sowing the seeds of financial instability that poses challenges to Governor Shri Urjit Patel, and make importers complacent, while creating anxious moments for exporters. "An independent inflation targeting monetary policy does have implications for the FX market and capital flows. Among other reasons, perceived high rupee returns may be one of the reasons for the current rupee outperformance. Foreign portfolio flows are coming in, and looking at the perceived high interest-rate differentials, more exporters may be hedging than importers. When the currency surges 6.20% and capital flow is liberal, being a central banker with a mandate to control inflation with interest rate alone, is like getting thrown into the boxing ring with hands tied. Economists, in general, call it the impossible trinity an autonomous monetary policy, free capital movement, and exchange rate management. The current record low inflation of 1.54% is abnormal for an emerging country like India. RBI's inflation mandate is forcing it to keep interest rate high with uncertainties like global financial risks when the impact of slow tightening by the Fed begins to pinch and commodity prices and crude turn. The RBI can lower short-term rates, but keep longer term rates high to face uncertainties. The RBI may have to get bring down short-term interest rates, but keep the long tenor high to match its fear of uncertainties from revival of price pressures, to global financial market turmoil. Dr. Reddy may not be the ideal guide here for Shri Patel, but he can borrow from former Fed chairman Shri Ben Bernanke's book. To help Main Street benefit from his loose monetary policy, Bernanke launched his 'Operation Twist'. He lowered yield on long-tenor securities by buying them with the sale proceeds of short-term notes. Patel can conduct an 'Operation Twist' in reverse.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/why-rbis-urjit-patel-should-follow-former-fed-chairman-ben-bernankes-operation-twist/articleshow/ 60011991.cms

Dated: Aug 11, 2017

- **SBI Confident It Will Bounce Back, Despite Sharp Rise In Bad Loans:** As per State Bank of India the June quarter earnings fell 20 percent on a non-comparable basis, but rose more than four times if the numbers of merged entities were taken into account. But its overall financials continued to deteriorate as it grappled with the integration of the disparate entities that it brought into its fold in the biggest ever consolidation exercise in the industry. While the poor state of corporate loan books is well known, what turned worrisome during the quarter was the sudden surge in the retail lending portfolio of the banks about which the bank is confident of coming back. Profit on the consolidated banks' accounts rose 435% rise to Rs 2006 crore, from Rs 374 crore net a year earlier. This one quarter we have only spent to getting our house in order whether it be data merger, people transfers, whether it be reorganization of the branches, so all of that has happened. The merger took a toll on bank's recovery. It witnessed a sharp rise in slippages of Rs 26,249 crore leading to high provisions. Of the total slippages Rs 8363 came from the corporate book and remaining Rs 17886 crore came in from the retail book. Despite the massive clean-up in FY17, elevated slippages are disappointing. But the bank admitted to the mess the merger has created and is confident it could bounce back. Net interest income fell 3.5% to Rs 17,606 crore on like-to-like basis which was due to lower lending rates. Loan portfolio shrank Rs 65,000 crore to Rs 18.5 lakh crore. The advances portfolio also dipped because of a shift of Rs 40,000 crore to commercial paper. Provisions for bad loans declined 26% to Rs 9869 crore and gross bad loans rose to 9.9% to Rs 1.88 lakh crore. bad loans was at 5.9% of total loans.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-confident-it-will-bounce-back-despite-sharp-rise-in-bad-loans/articleshow/60024724.cms

Dated: Aug 11, 2017

- **One Of The Biggest Willful Defaulters In CBI Net:** Varun Industries one of India's biggest willful that owes banks and other lenders about Rs 2,500 crore. Shri Agarwal is on the list of top 10 willful defaulters in the country. Agarwal and his business partner Kiran Mehta had fled India after defaulting on payments. On August 5, CBI arrested him when he landed from Dubai and a local court has remanded him in custody. Shri Agrawal and Shri Mehta had allegedly cheated Chennai-based Indian Bank of Rs 330 crore besides another Rs 1,593 crore to a consortium of banks, led by Indian Bank. They began defaulting since 2013 and borrowed huge money from the market after pledging their shares. Last year, on complaint of Indian Bank, the CBI had registered a case against Varun Industries, Shri Agarwal and Shri Mehta for criminal conspiracy, cheating and forgery. According to a list of willful defaulters prepared by All India Bank Employees Association, as of March 2013, Varun Industries, along with its subsidiary owed Rs 1,242 crore to 10 government-owned banks. In 2015, the company also became the first willful defaulter in India.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/one-of-the-biggest-wilful-defaulters-in-cbi-net/articleshow/60041325.cms

Dated: Aug 13, 2017

- **Majority Union In SBI Gains Membership After Associate Banks' Merger:** The merger of State Bank of India's associate banks with SBI has resulted in sizeable membership gain for the majority union All India State Bank of India Staff Federation (AISBISF). The AISBISF may have gained but to what extent is something that cannot be exactly quantified, countered the top leader of All India Bank Employees' Association (AIBEA). Around 28,000 members of AIBEA in the erstwhile associate banks have joined our union post-merger. Prior to the merger membership strength in SBI was around 170,000 and now we expect the membership number to touch 200,000. Nearly 40,000 award staff (class III and IV) came to SBI from the associate banks. The AIBEA had a lion's share of membership in the associate banks. It also had its nominees on the bank's board. However, AISBISF was the majority union in SBI. Of the 40,000 staff who came to SBI post-merger, around 28,000 have joined our union. It is nothing new for the union to add members in large numbers nor does it pose any challenge. SBI recruits in large numbers and the new recruits join our union. As to the members of AIBEA who joined our union, they are educated and took their own decision. There will not be any clash of any ideology. It is true that some AIBEA members in erstwhile associate banks have joined AISBISF after the merger with SBI. But the numbers are not alarming.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/majority-union-in-sbi-gains-membership-after-associate-banks-merger/articleshow/60045483.cms

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Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/majority-union-in-sbi-gains-membership-after-associate-banks-merger/articleshow/60045483.cms

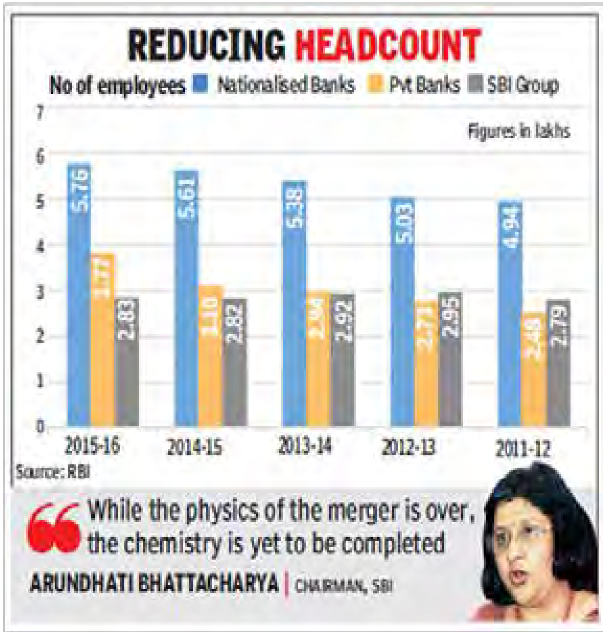
Dated: Aug 13, 2017

- **Saving Deposit Rate Cuts To Lead To Lower Lending Rates:** Reduction in saving deposit rates by three large banks over the past fortnight may set the ball rolling for lower lending rates and stoke greater competition among lenders. The nation's largest lender, State Bank had on July 31 slashed the pricing for under Rs 1 crore saving deposits by 0.50 per cent to 3.5 per cent. Bank of Baroda and Axis Bank followed, which last week revised downwards their savings rates by a similar quantum for deposits of up to Rs 50 lakh. According to India Ratings, since the profitability banks remains weak owing to continued pressure on asset quality and low credit demand, it will be imperative for these cash-rich lenders to start gaining market share over weaker peers that are starved of capital. With the interest rate cycle reaching the bottom, downward repricing of existing liabilities can facilitate a further reduction in the rates. A few large banks cutting savings deposit rates over the past few weeks is a move in that direction. As per the, slashing saving deposit rates for an amount below Rs 50 lakh presents large public banks that have stable, large and granular savings deposit base with additional manoeuvrability over private peers to cut marginal cost of lending rate. Public sector banks have more room than private banks to percolate savings banks rate cut into reduction in MCLR because of a large base and sticky saving accounts. The maximum cut in MCLR (marginal cost based lending rate) -- which is up for review by the RBI due to poor transmission -- for state-owned banks can be 0.35 per cent, assuming a 0.50 per cent cut in savings deposit rates. A cut in the MCLR beyond 0.35 per cent would become a margin dilutive proposition. For private lenders, the threshold is 0.25 per cent. According to the report, this could intensify competition between large lenders with strong savings deposit franchise and capitalization towards gaining credit market share while channelizing some volumes in the commercial papers market towards bank credit. If bank rates were to decline from 2016-17 levels, it could provide some relief to vulnerable corporate to service their debt provided the benefit is transmitted to these borrowers. However, credit profiles of these entities are unlikely to improve much owing to their weak operating metrics and cash flows coupled with high debt levels. An improvement in demand growth rather than lower interest rates will have a greater positive impact on the credit profiles of overleveraged entities.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/saving-deposit-rate-cuts-to-lead-to-lower-lending-ratesreport/articleshow/60042949.cms

Dated: Aug 13, 2017

- **SBI Cuts Staff Strength, Looks To Redeploy 10,000:** State Bank of India (SBI) has reduced its staff headcount by 6,622 in the first quarter of FY18 to 2.73 lakh from 2.80 lakh at the beginning of the quarter due to retirements and a voluntary retirement scheme. The bank now plans to redeploy over 10,000 employees following the merger of its associate banks and due to digitization. Consolidation of associate banks and a shift to digital channels for banking have set in motion a job restructuring process in one of the largest employers in the country. While the physics of the merger is over, the chemistry is yet to be completed referring to the integration process after the merger of balance sheet which came into effect from the first quarter. A large part of the job restructuring is taking place on account of merger as the bank juggles its branch network to avoid having several outlets on the same street. SBI has merged 594 branches till August 6 and has rationalized 122 administrative offices. This in itself is expected to result in savings of over Rs 1,160 crore annually. The bank has entrusted a new entity SBI Infra Management the responsibility of managing its real estate assets. SBI is also finding the need to rationalize due to digitization within and outside the bank. For instance, the bank is redeploying staff in government service branches as the Centre is shifting most of its banking operations to portals. Private lenders like HDFC Bank have been reducing their headcount at a much higher pace even as they push digital transaction. HDFC Bank's staff strength has come down from 90,421 in December 2016 to 84,325 in March 2017. In the first quarter of the current fiscal, the bank saw 7,247 employees exiting following retirements, including 3,569 employees of the erstwhile associate banks who were offered a voluntary retirement scheme. The bank had paid out Rs 473 crore ex gratia under this scheme which will result in salary savings of Rs 400 crore per annum. Of the staff redeployment planned by SBI, 2,000 will be because of shifting of administrative offices and another 8,618 due to branch rationalization. Around 30% of the staff of rationalized branches will be redeployed in sales functions. The bank has introduced a new employee appraisal system where performers will receive financial incentives. The total employee of SBI and associates as on March 31 was around 2.80 lakh. The number has been stagnant for a couple of years as there has been a hump in retirements of large number of employees hired during the '80s. As against the exits, the bank has hired only 625 staff members in the first quarter,



taking the total headcount down to 2,73,181. The number could further drop as full year retirements in FY18 are expected to be around 15,460. The bank is recruiting specialists for digital space and marketing though not in large numbers. The share of alternative (non-branch) channels in transactions has increased substantially from 76% a year ago to 80% on June 2017. The share of internet banking has increased from 24% to 30% of all transactions. Interestingly, ATM transactions are only 34% of transactions as against 43% a year ago.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-cuts-staff-strength-looks-to-redeploy-10000/articleshow/60051905.cms

Dated: Aug 14, 2017

- **NPA Resolution To Spur Credit Expansion, Growth:** Resolution of bad loans in the banking system is on 'right track' and will 'open the door' to rapid credit expansion and growth. Terming the Non-Performing Assets (NPAs) or bad loans problem as a 'legacy issue', even after three years of the NDA government taking charge, it has not gone away. If this is done, this problem of twin balance sheet issue (over-leveraged companies and bad-loan-encumbered banks) will get addressed at the result of this. So banks will be better equipped to lend and on the sides of borrowers there will be greater appetite. The banking sector is saddled with NPAs of over Rs 8 trillion (Rs 8 lakh crore), of which Rs 6 trillion is with Public Sector Banks (PSBs). As part of its strategy to rein in the unacceptable level of NPAs, Reserve Bank of India recently identified 12 accounts for Insolvency and Bankruptcy Code (IBC) proceedings with each of them having over Rs 5,000 crore of outstanding loans, accounting for 25 per cent of total NPAs of banks. The 12 identified cases account for 25 per cent or about Rs 2 lakh crore of NPAs. The finance ministry has sought help of NITI Aayog and global consultancy firms to examine the possibility of next round of consolidation of PSU banks with an aim to create a few lenders of global size and scale. NITI Aayog's report is expected to set the tone for consolidation roadmap. Five associate banks and Bharatiya Mahila Bank (BMB) became part of SBI on April 1, 2017, catapulting the country's largest lender to among the top 50 banks in the world.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/npa-resolution-to-spur-credit-expansion-growth-arvind-panagariya/articleshow/60043708.cms

Dated: Aug 14, 2017

- **ICICI Bank To Raise Rs 10,000 Crore Via Bonds:** Rating agency ICRA has assigned an 'AA+ (hybrid)' rating to the proposed offering of the private bank. It is described as a hybrid subordinated instrument, with equity-like loss-absorption features. The distributable reserves that can be used to service the coupon in case of inadequate profit or a loss stood at a comfortable 10.4 per cent of risk-weighted assets as on June 30. The reserves available for servicing the coupon (interest payments) improved from 7.7 per cent of risk weighted assets in March 2016 to 9.9 per cent in March 2017.The capital adequacy ratio was sound at 17.89 per cent at June end. The resource position was healthy, with the share of low cost deposits the current and savings accounts at 49 per cent as of end-June. The loan book at March end was Rs 4,64,232 crore, with a market share of six per cent in banking sector advances. The domestic loan book grew 10.9 per cent over a year during the April-June quarter. Overall growth in advances was moderate at 3.3 per cent, due to shrinkage in overseas ones of minus 25 per cent. So, the loan book stood at Rs 4,64,075 crore as on June 30.The overall loan book is expected to expand by 10-12 per cent this financial year, higher than the estimated growth of seven to eight per cent for the banking sector. It expects the pressure on profitability to continue in the near term, due to asset quality challenges and consequent credit costs. However, operating profits are likely to remain stable. The bank has additional buffers in terms of high capital levels and an ability to monetize its investments. With expectation of a limited decline in the cost of funds, the Net Interest Margins (NIMs) are expected to remain under pressure during the medium term. The reprising of existing floating rate loans and the lower level of income earning assets on account of slippage are impacting the margins. NIMs remained stable on a year-on-year basis at 2.9 per cent during the June quarter. It was 2.9 per cent in the same quarter a year ago and for the 2016-17 financial year.

Source: http://www.business-standard.com/article/finance/icici-bank-to-raise-rs-10-000-crore-via-bonds-117081400358_1.html

Dated: Aug 14, 2017

- **Wilful Defaulters Owe Rs 92K Cr. To PSU Banks:** Public sector banks have reported 20 per cent jump in the outstanding loans by nearly 9,000 wilful defaulters who collectively owed to lenders more than 92,000 crore at the end of March this year. The outstanding loans by wilful defaulters rose to Rs 92,376 crore at the end of financial year 2016-17, as against Rs 76,685 crore at the end of March 2016, registering a jump of 20.4 per cent. At the same time, there has been close to 10 per cent increase in number of wilful defaulters on annual basis. The number of wilful defaulters increased to 8,915 at the end of March as against 8,167 in the previous fiscal. Out of 8,915 cases of wilful defaults, banks have filed FIR (First Information Report) in 1,914 cases with outstanding loans of Rs 32,484 crore. During 2016-17, 27 public sector banks, including SBI and its five associates have written off Rs 81,683 crore, the highest in the last five fiscals. The amount was 41 per cent higher than that in the previous fiscal. SBI and its erstwhile associates alone have written off Rs 27,574 crore Non-Performing Assets (NPAs) in 2016-17, according to the RBI data on "write offs" done by public sector banks. SBI merged its five associate banks with itself from April 1 2017. Gross NPAs of the public sector banks rose to Rs 6.41 lakh crore at the end of March 2017 as against Rs 5.02 lakh crore a year ago. In order to check incidences of wilful default, RBI has tightened the norms and made it clear that promoter of the defaulting company cannot escape from his responsibility even if he is not a whole time director. As per earlier guidelines, a bank couldn't label a non- whole-time director of a company as a wilful defaulter unless there was conclusive evidence that the individual was aware of the wilful default by the company and had not objected to it. A wilful default occurs when a defaulting borrower doesn't honour an obligation, despite having the capacity to pay, or siphoning off funds and disposing of assets without the knowledge of the bank, according to RBI. RBI also allowed banks to name and shame wilful defaulters by publish their photographs.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/wilful-defaulters-owe-rs-92k-cr-to-psu-banks/articleshow/60072297.cms

Dated: Aug 15, 2017

- **Thousands Transferred, Branches Closed, But No Major Protests In SBI:** India's largest lender, State Bank of India (SBI), has rationalized 716 offices (594 branches and 122 administrative offices) and several thousands of employees have been transferred beginning this fiscal, but, strangely, there have been no major protests. Several hundreds of offices would be closed and thousands of staff would be moved in the coming months, officials added. Strangely one does not hear any major complaints of vindictiveness or arbitrariness from the normally vociferous banking sector employees. This, at a time when leading software companies are arbitrarily firing people at day's notice. Even the unions that strongly opposed the merger of six banks with SBI and were apprehensive about treatment of incoming staff by the SBI management agree that there is not much of vindictive or arbitrary movement of people till now, making one wonder as to how and why this happened. Around 70,000 employees (around 40,000 Cass III and IV and around 30,000 officers) were added to SBI's rolls following the merger of SBBJ (State Bank of Bikaner and Jaipur), SBM (State Bank of Mysore), SBT (State Bank of Travancore), SBP (State Bank of Patiala) and SBH (State Bank of Hyderabad) and Bharatiya Mahila Bank. By and large, the staff redeployment in SBI has been smooth. However, there seems to be complaints of vindictive transfers in Kerala which the management must address satisfactorily. The reservation about the merger was only in the incoming employees' minds. Once the merger happened and the employees saw the systematic way the policies were followed, the mental block against the merger has melted. When the merger was proposed, integrating the officers of associate banks was not considered to be a problem. However, in the case of clerical cadres there was a crucial difference between SBI and the associate banks. Under the SBI's CPP for clerical staff, those who accept higher responsibility are given additional powers and allowances. But such schemes were not there in the associate banks and the major union there the AIBEA had opposed the scheme. Many employees of the erstwhile associate banks have now opted for the CPP. There were no mass scale transfers in the associate banks prior to the introduction of Voluntary Retirement Scheme (VRS) before the merger. A total of 3,569 employees opted for VRS. The VRS numbers were as per our initial expectations. In the case of officers, they will be transferred on promotion or after completing three years at a location. On the staff redeployment process, the bank planned a mix of employees those who are originally from SBI and from associate banks so that they get culturally integrated with SBI. According to SBI, the projected number of staff to be redeployed due to rationalization of administrative offices and branches is around 10,616. The bank has nearly 30 per cent of the 8,616 staff to be redeployed due to branch rationalization will be posted in sales functions.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/thousands -transferred-branches-closed-but-no-major-protests-in-sbi/articleshow/60071592.cms

Dated: Aug 15, 2017

- **Feedback Infra Sees Big Scope In Turning Around Stressed Assets:** Integrated infrastructure service provider Feedback Infra is emerging as a key player in managing and turning around stressed assets portfolio of lenders such as State Bank of India, ICICI Bank, Punjab National Bank as well as asset restructuring companies like Edelweiss ARC. Feedback Infra is already operating some toll roads after banks took over the assets, and is in talks to run a power plant which a lender is taking over. Indian Banks' Association (IBA) has empanelled it as an NPA resolution consultant, making it the only private engineering and operations firm in the panel. Proven experience in infrastructure services from concept to commissioning to operations has been recognized and leveraged to create India's first dedicated team of infrastructure professionals to offer turnaround services to banks, financial institutions, and promoters. The company, which has expertise in the operational aspects of infrastructure projects as well as assessing their viability and monitoring a turnaround plan, already has a portfolio of Rs 31,000 crore, which will rise to Rs 1 lakh crore in a year. Stressed assets in India are estimated at Rs 7 lakh crore, with 70% in the infrastructure sector.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/feedback-infra-sees-big-scope-in-turning-around-stressed-assets/articleshow/60077753.cms

Dated: Aug 16, 2017

- **Jan Dhan Accounts May Be Losing Their Momentum:** Jan Dhan is probably the most aggressive scheme undertaken by any government for financial inclusion. Between December 2014 and December 2016, the number of accounts increased from 104 million to 262 million and further to 288 million by May 2017. However, the challenge is to get people to use these accounts and get into the banking habit, so that they could move up the ladder and use a credit facility or remittance or third-party product offered by banks. The thrust was on numbers to begin with and, hence, having 288 million accounts indicate that virtually every family has access to an account. The average balance held in these accounts, however, is critical as it indicates whether or not the banking habit has been cultivated. The table here provides some data on these accounts, with focus on non-zero balance accounts (information up to February 2017 only). Comparable numbers for average balance in all accounts are also provided to give a perspective. In terms of the use of these accounts, some interesting facts emerge. First, the average balance kept in these accounts increased and peaked in December 2016. The higher usage of these accounts may be attributed to demonetizations several transfers were made

– both by households as well as those stocking black money for conversion purposes. Still the amount was just about 22 days of NREGA wages. Second, post-demonetization the money appears to have been withdrawn by around Rs 500 per account. Third, the number of zero balance accounts has come down sharply from 73.3% in 2014 to 24.1% in 2016, but rose to 24.9% in February 2017. Prior to the introduction of this scheme, RBI data on average size of deposits as of March 2014 shows that in rural areas, it was Rs 11,080/account, which rose to Rs 17,251 in semi-urban areas and Rs 36,056 in metro and urban areas. The average for the country was Rs 21,156/account. Two conclusions may be drawn here. The first is that the Indian banking system was doing an excellent job in terms of garnering funds from the business perspective and covered households which had savings. The second is that the present performance, even at its peak of Rs 3,571/ account in 2016, is very low compared to the existing average. This raises questions about the savings capabilities in the country. The interesting part of these accounts is that it has primarily been an initiative shown by the public sector banks with their share being around 80%, followed by regional rural banks with 16-18%. Both have borne the cost of this scheme. Private sector banks have averaged around 3.2-3.5%. The leading states are UP, Bihar, West Bengal, Maharashtra, Manipur, Rajasthan, Chhattisgarh, Assam and Odisha. A thought worth pondering over is that if PSBs in the normal course were doing a good job of coverage and Jan Dhan has acted more as a channel for government transfers, the addition of small banks and payments banks would only make the canvas more competitive with each segment fighting for a limited piece. It does appear that we may have reached the end of the road where improvement can accrue only if incomes increase and having more institutions and schemes may not add a significant delta to the frame.

Taking Stock

	Dec-14	Dec-15	Dec-16	May-17
Total accounts(in million)	104.44	198.38	262.01	287.59
No of '0' balance a/cs (mn)	76.55	63.11	63.21	n.a.
Total balances (₹ mn)	85,534	292,255	710,366	641,632
Avg balance in a/c (₹)	819	1,473	2,711	2,231
Avg balance non-zero a/c (₹)	3,066	2,160	3,571	n.a.

Source: PM-Jan Dhan website

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/jan-dhan-accounts-may-be-losing-their-momentum/articleshow/60078090.cms

Dated: Aug 16, 2017

- **Digital Wallet Companies Wait For RBI Norms:** As RBI is expected to release the new guidelines for the prepaid payments instruments (PPIs) or digital wallets in a week or two, the industry is waiting on its toes. While the central bank is expected to open up fresh applications for PPI licenses, they were keeping an eye out for Know-Your-Customer norms and cyber insurance for wallets. The RBI had last issued a draft master circular on March 20. Top executives of the payments industry met the regulator and voiced their responses to the suggestions and are now waiting for the final move from the regulator. While a clutch of entities like Amazon and Pine Labs recently got PPI licenses, they had applied before the applications were closed.

Multiple payment players are waiting for the regulator to open applications for new licenses. The industry is also keeping an eye out for stringent KYC. A full KYC for all wallet holders will be a difficult proposition for payments companies as it would drive up their costs since the wallet balance limit is low they could consider partial KYC. While there was no direct mention of insurance cover for wallets, the industry executives are also keeping an eye out for any such references.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/digital-wallet-companies-wait-for-rbi-norms/articleshow/60079617.cms

Dated: Aug 16, 2017

- **No More Lobbying In Public Sector Bank Appointments:** No lobbying, "allotment" on the basis of merit-cum-performance and enlarging the employment pool to include the private sector are some key initiatives taken by the Centre for top-level recruitments in public sector banks. The two big issues that Indian public sector banks grapple with are high Non-Performing Assets (NPAs) and inadequate systemic safeguards. The central government has introduced "far reaching changes" in the appointments of top officials to solve many problems faced by nationalized banks. In a chapter titled "Reforms in banks: performance through leadership", as per the report there is now "no lobbying". The reforms also include "independent professional body for selection", "pool enlarged by opening to private sector", "objective and transparent selection" and "allotment on the basis of merit-cum-performance". According to the ministry, a lot of the problems in the sector "had to do with the management leadership, which has been under scrutiny for disbursement of poor-quality loans and the possibility of being influenced by interested stakeholders". Public sector banks need leaders chairmen, managing directors, board members who can not only clean up the books but also introduce transparent processes and ensure that business decisions are taken solely on merit so as to make these banks profitable in a world where private competition is fast eating into their market share. This is what the government had in mind when it introduced far-reaching changes in the appointments of top officials in the bank. The one big step was the setting up of an independent Banks Board Bureau (BBB). It has the mandate to evolve a sound managerial policy for the nationalized banks. "This would include advising the government on the selection and appointment of board of directors, desired management structure at the board level and developing a suitable performance appraisal system for the banks. To attract talent, top positions of managing directors and chief executive officers in five large players Bank of Baroda, Bank of India, Canara Bank, Industrial Development Bank of India and Punjab National Bank are also open to candidates from the private sector. To improve the structure of governance, the post of chairman-cum-managing director in the banks has been split into a non-executive chairman and an executive MD and CEO. It is expected that these reforms in appointment process will result in better governance and eventually reduce NPAs and sustain profitability of public sector banks.

Source: http://economictimes.indiatimes.com/industry/

banking/finance/banking/no-more-lobbying-in-public-sector-bank-appointments/articleshow/60102214.cms

Dated: Aug 17, 2017

- **Banks Strike On August 22 To Protest Against Proposed Reforms:** United Forum of Banking Unions (UFBU), the umbrella body of trade unions in the banking sector, has called a nation-wide strike on August 22 to protest against the reforms proposed by the Centre. As per West Bengal convener of UFBU Shri Siddhartha Khan, government is ushering in privatization and consolidation in the Indian banking sector in the garb of reforms. The Bank Board Bureau had been formed to bring all the public Sector Banks(PSBs) under a banking investment company and get the government's share in PSBs below 50 per cent. Rise in the gross NPAs of all the PSBs to Rs 6.83 lakh crore was also a major cause for concern and the banking system's financial health was suffering due to provisioning. The banks are giving very little stress on recovery of bad loans and taking recourse to either write-offs or provisioning.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/banks-strike-on-august-22-to-protest-against-proposed-reforms/articleshow/60103726.cms

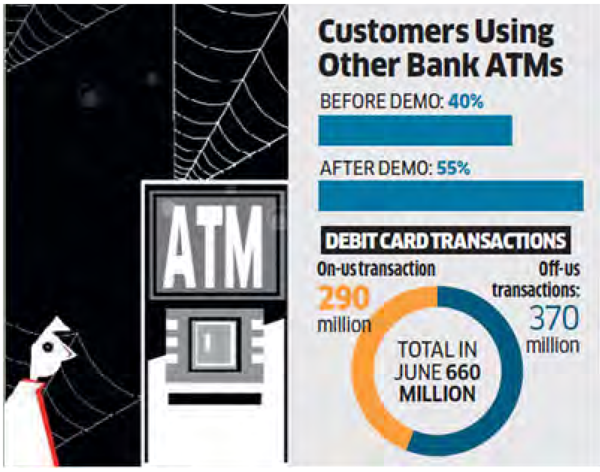
Dated: Aug 17, 2017

- **PNB, HDFC Bank Cut Interest Rate On Savings Account By 0.5%:** Two leading lenders PNB, HDFC Bank has slashed interest rate on savings bank accounts by 50 basis points to 3.5 per cent on deposits up to Rs 50 lakh. Besides, Punjab National Bank (PNB) has also reduced interest rates on fixed deposits of less than Rs 1 crore by 15-40 basis points on select maturities. Interest rate on savings bank account for balance up to Rs 50 lakh has been reduced to 3.50 per cent per annum. HDFC Bank became the fifth while PNB sixth lender after SBI to cut interest rate on savings bank account. Post revision, customers maintaining savings bank account balance of Rs 50 lakh and above will continue to earn interest at 4 per cent per annum. Customers maintaining account balance of below Rs 50 lakh will earn interest at 3.5 per cent per annum. The new interest rates of both the banks will be effective from August 19. On July 31, State Bank of India (SBI) slashed interest rate on savings account deposits by 50 basis points to 3.5 per cent on balance of Rs 1 crore and below. This triggered rate cut by various banks. Axis Bank had also reduced interest rate on savings bank accounts by 50 basis points to 3.5 per cent for deposits up to Rs 50 lakh. Another PSU lender Bank of Baroda had cut the rate to 3.5 per cent on deposits of up to Rs 50 lakh. Karnataka Bank too has tweaked the interest rate on savings bank accounts. Yes Bank reduced the interest rate on savings bank accounts by 1 per cent to 5 per cent for deposits of less than Rs 1 lakh.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/pnb-hdfc-bank-cut-interest-rate-on-savings-account-by-0-5/articleshow/60107311.cms

Dated: Aug 17, 2017

- **Third-Party ATM Use Up As Banks Install Few Machines:** If you are not being able to find a working ATM of your own bank in the vicinity forcing you to use another bank's ATM even a good eight months after demonetization, you are not alone. Customers are now being forced to use other banks' ATMs more often than before because banks have slammed brakes on deployment of new ATMs, or automated teller machines, while there has been an increase in issuance of debit cards. According to data from the Reserve Bank of India and the National Payments Corporation (NPCI), which manages the ATM switch through which all interbank ATM transactions travel, the trend has been picking up over the past six months. As per bankers, Due to this acquiring banks are paying more interchange fees now. Before demonetization, an average 40% of customers used other banks' ATMs for cash withdrawal. Now, the number has shot up to almost 55%. Another reason for this rise could be that less number of ATMs are functional now as compared with the pre-demonetization days, forcing customers to be less choosy about ATMs. An analysis of the figures shared by RBI and NPCI shows that the mix of 'off us' (when a bank's customer uses another bank's ATM) and 'on us' (when the customer uses the same bank's ATM) transactions has reversed after demonetization. "Post demonetization there has been a sudden spurt in off-us transactions on ATMs. Previously 60%



of the customers would use their own banks' ATMs, now the share has changed". Currently we are hovering close to 50-50. Numbers from RBI and NPCI substantiate the claims. Total debit card transactions in June this year were recorded at 660 million.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/third-party-atm-use-up-as-banks-install-few-machines/articleshow/60112499.cms

Dated: Aug 18, 2017

- **ICICI Bank Cut Interest Rate On Savings Account By 0.5%:** CICI Bank has become the latest bank to cut its savings bank rate. In a notice to the stock exchange the bank said it had cut the interest rate on deposits below Rs. 50 lakh to 3.5%. The reduced rate is effective from Saturday. ICICI joins peers SBI, Bank of Baroda, HDFC Bank, Axis Bank, Yes Bank among others which have reduced their rate on savings account deposits in light of a surge in bank deposits post demonetization in November last year. ICICI Bank has announced a revision in its savings bank account interest rate with effect from August 19, 2017.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/icici-bank-cut-interest-rate-on-savings-account-by-0-5/articleshow/60123358.cms

Dated: Aug 19, 2017

- **Regional Rural Banks' Mergers Gets Exemption From CCI Ambit:** The mergers of regional rural banks that are ordered by the government are now exempt from seeking CCI approval, according to a notification a move that will lead to faster closure of such transactions. The Competition Commission of India (CCI) keeps a tab on unfair business practices across sectors. Mergers and acquisitions beyond a certain threshold compulsorily require clearance from the fair trade watchdog. Regional Rural Banks (RRBs) set up under the RRB Act, 1976 provide credit and other facilities to small farmers, agricultural laborers and artisans, among others, in the rural areas. Currently, there are 56 RRBs. The provisions of Section 5 and 6 of the Competition Act would not be applicable for five years on such transactions. Section 5 and 6 pertain to combination of enterprises. The CCI comes under the corporate affairs ministry. The banking sector in India is stressed and if the government wishes to amalgamate certain regional rural banks in the public interest, then regulatory approvals should be kept at the minimum. Against this backdrop, the exemption would help ensure that these transactions close quickly. Under the RRB Act, 50 per cent stake in a RRB would be with the central government, 15 per cent with the state government concerned and the remaining with the sponsor bank. In 2015, the RRB Act was amended whereby such banks were permitted to raise capital from sources other than central, state governments and sponsor banks. In such instances, the combined shareholding of the central government and the sponsor bank should not be lower than 51 per cent. Further, if the state government's stake comes down to below 15 per cent in an RRB, then the central government needs to consult the state government concerned.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/regional-rural-banks-mergers-gets-exemption-from-cci-ambit/articleshow/60143020.cms

Dated: Aug 20, 2017

- **Defaulters Owe 27% Of Total Amount To SBI Alone, PNB Next:** Country's largest lender SBI accounts for over 27 per cent of the total amount owed to public sector banks by willful defaulters. As many as 1,762 willful defaulters owed Rs 25,104 crore to State Bank of India as on March 31, putting pressure on its balance sheet. Punjab National Bank (PNB) is next on the list with 1,120 willful defaulters having outstanding Non-Performing Assets (NPAs) or bad loans of Rs 12,278 crore. Together these two banks account for Rs 37,382 crore or 40 per cent of the total outstanding loans. Total outstanding loans due to public sector banks by willful defaulters amounted to Rs 92,376 crore, according to the Finance Ministry data. The total outstanding loans by willful defaulters rose to Rs 92,376 crore at the end of financial year 2016-17, from Rs 76,685 crore at the end of last fiscal 2015-16 -- up 20.4 per cent. At the same time, there has been close to 10 per cent increase in the number of willful defaulters on annual basis. It increased to 8,915 at the end of March as against 8,167 in the previous fiscal. Out of 8,915 cases of willful defaults, banks have filed FIR (First Information Report) in 1,914 cases with outstanding loans of Rs 32,484 crore. During 2016-17, 27 public sector banks, including SBI and its five associates had written off Rs 81,683 crore, the highest in the last five fiscals. The amount was 41 per cent higher than that in the previous fiscal. Gross NPAs of the public sector banks rose to Rs 6.41 lakh crore at the end of March 2017 as against Rs 5.02 lakh crore a year ago. In order to check incidences of willful default, RBI has tightened the norms and made it clear that promoter of the defaulting company cannot escape from his responsibility even if he is not a whole time director. As per earlier guidelines, a bank couldn't label a non- whole-time director of a company as a willful defaulter unless there was conclusive evidence that the individual was aware of the willful default by the company and had not objected to it. A willful default occurs when a borrower doesn't honor an obligation despite having the capacity to pay or siphons off funds by disposing of assets without the knowledge of the bank, according to RBI. RBI has allowed banks to name and shame willful defaulters by publishing their photographs.

Source: http://economictimes.indiatimes.com/industry/ banking/finance/banking/ defaulters-owe-27-of-total-amount-to-sbi-alone-pnb-next/articleshow/60142914.cms

Dated: Aug 20, 2017

- **Government May Put Public Sector Banking Mergers On Fast Track:** Keen to push consolidation in the public sector banking space, the government is looking to set up a new mechanism to speed up decisions on possible mergers among state-run lenders. The new process will be along the lines of the alternative mechanism that's been adopted for strategic disinvestments, which involves a small group of cabinet ministers. The government announced its intention of reducing its stake in IDBI Bank to below 51 per cent last year but this hasn't taken place yet on account of the lender's bad loans and as the valuation exercise hadn't included its real estate assets. The government has already announced its intent to press for consolidation in the banking sector. Earlier this year, four state-run banks Syndicate Bank, Canara Bank, Vijaya Bank and Dena Bank made presentations to the finance ministry on likely consolidation plans. State Bank of India absorbed five of its associate lenders and the Bharatiya Mahila Bank in April, creating a larger bank that accounts for a quarter of all outstanding loans. The idea is in the early stages of deliberation. The government has adopted the alternative decision-making mechanism to expedite stake sales in government-run companies. Cabinet approval won't be needed at every stage with this mechanism in place, making the process faster. This process is being employed to pursue a stake sale in national carrier Air India as well.

Source: http://economictimes.indiatimes.com/industry/ banking/finance/banking/ government-may-put-public-sector-banking-mergers-on-fast-track/articleshow/60149906.cms

Dated: Aug 21, 2017

- **Dena Bank Cuts Savings Rate By 0.5% On Deposits Up To Rs 25 Lakh:** Public sector Dena Bank has cut interest rate on savings account deposits up to Rs 25 lakh by 0.5 per cent to 3.50 per cent. Those having deposits over Rs 25 lakh in their savings bank accounts will continue to get the existing interest of 4 per cent. Dena Bank has reduced the interest rate on savings bank account for balance up to Rs 25 lakh to 3.50 per cent per annum from the existing rate of 4 per cent per annum. For deposits above Rs 25 lakh, the interest rate will remain unchanged at 4 per cent per annum, it said. With this, Dena Bank has joined a host of peer banks after the industry leader SBI started paying less on certain savings deposits. State Bank of India (SBI) had cut interest rate on savings deposits on July 31 by 0.5 per cent to 3.5 per cent for deposits up to Rs 1 crore, the lowest rate being offered in six years. HDFC Bank, Bank of Baroda, Punjab National Bank and Axis Bank, Yes Bank and Karnataka Bank are among the banks which cut their interest rate on savings accounts.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/dena-bank-cuts-savings-rate-by-0-5-on-deposits-up-to-rs-25-lakh/articleshow/60158303.cms

Dated: Aug 21, 2017

- **Banks To Pay 3% IGST On Gold Imports:** Banks importing gold and precious metals will have to pay 3 per cent tax under the GST which can be claimed as input tax credit. Clarifying issues on GST on gems and jewellery through Frequently Asked Questions (FAQs), banks did not pay any VAT on import of precious metals previously. They only paid customs duty. However, under GST, 3 per cent Integrated-GST is payable on all imports of precious metals in addition to the basic customs duty. IGST paid can be taken as input tax credit by the banks. The banks would be liable to pay IGST on such imports and not any overseas supplier in which ownership is vested during movement of gold or silver. Ownership is not material for determining whether an import has taken place. Banks, being registered entities, would be liable to pay IGST on such imports but not the overseas entities since they are not effecting the import. Import of gold attracts a 10 per cent basic customs duty. On top of that a 12.5 per cent Countervailing Duty (CVD) was levied prior to GST. Since GST subsumed CVD, hence the GST rate on gold at 3 per cent has to be paid at the time of imports in the form of IGST with effect from July 1. The CBEC also clarified on levy of GST where the total value of a gold ornament is Rs 30,000, including Rs 2,000 as making charge saying, GST is payable at the rate of 3 per cent of the total transaction value of jewellery, whether the making charge is shown separately or not.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/banks-to-pay-3-igst-on-gold-imports/articleshow/60158041.cms

Dated: Aug 21, 2017

- **PSU Bank Employees Go On Strike; Services Hit:** Normal banking operations have been hit as public sector bank employees went on a one-day nationwide strike today to protest against the government's proposed consolidation move, besides raising other demands. Services like deposits and withdrawal at bank branches, cheque clearance, NEFT and RTGS transactions are affected. However, operations at private lenders such as ICICI Bank, HDFC Bank, Axis Bank and Kotak Mahindra Bank were almost normal. The Indian Banks' Association (IBA) had already informed customers that functioning of branches and offices may take a hit if the strike takes off. It had also asked banks to take measures in advance to minimize the impact. The strike has been called by all unions under the aegis of the United Forum of Bank Unions (UFBU). The UFBU is an umbrella body of nine unions, including the All India Bank Officers' Confederation (AIBOC), the All India Bank Employees Association (AIBEA) and the National Organization of Bank Workers (NOBW). Besides, protest against consolidation move of the government, other demands include no write-off policy for Non-Performing Assets (NPAs) of corporate loans, declaring willful default of loans as criminal offence and implementation of recommendations of Parliamentary Committee on recovery of NPAs. The government should provide overtime for additional work during demonetization. The UFBU, which claims membership of nearly 10 lakh across banks, requested the government for cost reimbursement of demonetization to banks. As many as 21 public sector banks control 75 per cent of the total banking

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/psu-bank-employees-go-on-strike-services-hit/articleshow/60170319.cms

Dated: Aug 22, 2017

- **Ensure Bank Mergers Benefit Customers, Shareholders:** As per State Bank of India chairperson who created history this year by merging six banks at one stroke, the economy needs bigger banks to meet its growing needs, but they should be nimble in their response. Mergers should be such that it should benefit the customers and should also result in adding value to shareholders. Mergers should reduce dependent of capital resources from the government. RBI and the government, is a dominant shareholder in nearly three-fourths of the Indian banking system, are working on merging some of the 22 state-run banks. Many of these banks have similar product offerings, and often have geographical overlap. Most banks are struggling to deal with increasing bad loans, straining the government's resources. As per RBI governor the central bank is in dialogue with the government to prepare a package of measures to enable PSBs to shore up requisite capital in a time-bound manner. The measures could include a combination of capital raising from the market, dilution of government holdings, additional capital infusion by the government, mergers based on strategic fit, sale of non-core assets, etc. The SBI chief, however, has warned that mergers driven by the "need to meet the capital adequacy ratio of banks are ill advised. There are three purpose that a merger should serve efficiency, market power and better accounting ratios. The size should not be a criterion for mergers.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/ensure-bank-mergers-benefit-customers-shareholders-arundhati-bhattacharya/articleshow/60182545.cms

Dated: Aug 22, 2017

- **Cabinet Approves Plans To Merge Some State-Run Banks:** The government has decided to set up an Alternative Mechanism to oversee the proposals for consolidation of Public Sector Banks (PSBs) with a view to creating fewer but stronger lenders. The Cabinet gave in-principle nod to the constitution of the mechanism which will clear proposals of banks for mergers and amalgamation. The government aims to create strong and competitive banks in public sector space to meet the credit needs of the growing economy, absorb shocks and have the capacity to raise resources without depending on the state exchequer, he said. The decision regarding creating strong and competitive banks would be solely based on commercial considerations, he added. After the in-principle approval, the banks will take steps in accordance with law and SEBI's requirements. The final scheme will be notified by the central government in consultation with the Reserve Bank.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/cabinet-approves-plans-to-merge-some-state-run-banks-report/articleshow/60189060.cms

Dated: Aug 23, 2017

- **Bank Of India Slashes Interest To 3.5% For Deposits Up To Rs 50 Lakhs:** Public lender Bank of India has reduced interest rate on savings bank accounts by 50 basis points to 3.5 per cent on deposits of up to Rs 50 lakh. However, the bank will continue to pay 4 per cent interest on deposits of above Rs 50 lakh. Customers maintaining savings bank balance up to Rs 50 lakh will get 3.5 per cent while those maintaining above Rs 50 lakh will continue to earn an interest of 4 per cent per annum. Public lender Bank of India has reduced interest rate on savings bank accounts by 50 basis points to 3.5 per cent on deposits of up to Rs 50 lakh. However, the bank will continue to pay 4 per cent interest on deposits of above Rs 50 lakh. On July 31, SBI slashed interest rate on savings account deposits by 50 basis points to 3.5 per cent on balance of Rs 1 crore and below. Other lenders, including private ones such as HDFC Bank and Axis bank, have followed suit. Axis Bank had reduced interest rate on savings bank accounts by 50 basis points to 3.5 per cent for deposits up to Rs 50 lakh. Another PSU lender, Bank of Baroda had slashed the rate to 3.5 per cent on deposits of up to Rs 50 lakh. Karnataka Bank too has tweaked the rate on savings bank accounts. On July 31, SBI slashed interest rate on savings account deposits by 50 basis points to 3.5 per cent on balance of Rs 1 crore and below. Other lenders, including private ones such as HDFC Bank and Axis bank, have followed suit. Earlier this month, Axis Bank had reduced interest rate on savings bank accounts by 50 basis points to 3.5 per cent for deposits up to Rs 50 lakh. Another PSU lender, Bank of Baroda had slashed the rate to 3.5 per cent on deposits of up to Rs 50 lakh. Karnataka Bank too has tweaked the rate on savings bank accounts.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/bank-of-india-slashes-interest-to-3-5-for-deposits-up-to-rs-50-lakh/articleshow/60205432.cms

Dated: Aug 24, 2017

- **Present Project Financing Ways Must Change:** With lenders' bets on project loans turning awry, ICICI Bank's Ms. Chanda Kochhar has said project financing is set to undergo fundamental changes wherein greater focus will be on planning and diligence. To bring back investments, the fundamentals of project financing will have to change. Projects will have to be much more completely tied-up before they get funded. As per ICICI Bank's Managing Director and Chief Executive, this shall include backward and forward linkages, land availability, natural resources and financial closures. The project finance will continue to be done by banks. The comments come amid heavy setbacks faced by lenders on project loans given out over the last few years across all sectors. The setbacks, coupled with external factors which have slowed down demand, have resulted in lenders shifting focus on retail for growth opportunities. Within corporate, banks have been generally doing a lot of short-term working capital loans and also minimizing risks by restricting credit supply to better-rated corporate. Not just banks, even promoters will not be committing money before all the tie-ups are in place. A lot more time will be spent on planning before monies get committed. That will be a substantive change in project financing. These included growth rates halving to about 5 per cent, delays in project clearances, dip in commodity prices and delays in backward and forward linkages. The cash flows fell short but the leverages became a certainty because projects had started and debt taken. There is also a need for long term money from pension funds, infra development funds and insurers to enter the project finance space in such a way that they take over the banks' exposure after the implementation risks recede, she said. This will help free up the money for banks to support the next wave of credit growth. It can be noted that for the past two-three years, credit growth has been continuously slipping with the past fiscal being the worst when it fell to historic laws. In FY17 bank credit slipped to a pale 5.08 per cent, the lowest since fiscal 1953 when it was a paler 1.8 per cent. Even in the first quarter of this fiscal credit demand remained anaemic at under 6 per cent.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/present-project-financing-ways-must-change-icici-banks-chanda-kochhar/articleshow/60205853.cms

Dated: Aug 24, 2017

- **AIBOC Opposes Govt's Decision To Set Up Alternative Mechanism:** A day after the Cabinet decided to set up ministerial panel to expedite consolidation among Public Sector Banks (PSBs), bank officers' union AIBOC has condemned the move saying it is a move towards privatization. There have been innumerable instances where mergers and takeovers of banks have been unsuccessful because of reasons like unsuccessful consolidation of banks working systems and methodology, asymmetric organization restructuring, improper and hasty communication, inappropriate human resources integration, and lack of cultural consideration. Citing example of SBI, AIBOC General Secretary Shri D.T. Franco stated when the bank declared its results on May 19, analysts discovered, to their horror, that the path to global greatness lay through a minefield of subsidiaries' losses, estimated at Rs 5,792 crore in the quarter ended March 2017 and Rs 10,243 crore for the full year. Excluding non-banking SBI subsidiaries such as life and general insurance, which reported annual profits of nearly Rs 2,000 crore, the losses would have been higher. SBI recommended dividend of Rs 2.5 per share for 2016-17 that will entail an outflow of Rs 2,073 crore, far exceeding the consolidated net profit of just Rs 241 crore. The Union Cabinet decided to set up an Alternative Mechanism to fast track consolidation among PSBs to create strong lenders. The move to create large banks aims at meeting the credit needs of the growing Indian economy and building capacity in the PSB space to raise resources without dependence on the state exchequer.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/aiboc-opposes-govts-decision-to-set-up-alternative-mechanism/articleshow/60210195.cms

Dated: Aug 24, 2017

- **Steps Taken To Bring Down Cost Of Digital Transactions:** The Centre and RBI have taken various steps to bring down the cost of digital transactions to encourage people to adopt such mode of payments. A lot of incentives were also extended to encourage people to shift to digital mode of payments and the response has been quite positive. Digitization has to reach down to the village level as cash mode of transactions is always insecure. One of the great challenges before us is to further popularize cashless tools because cash is always insecure. In the long run it neither helps society nor individuals. Therefore, for greater digitization, you need more touch points, more ATMs and more banks. And certainly, the penetration has to go down to villages. As per finance minister when cash operates in an informal system, its ownership is not easily identified, which aids the cover up, resulting in states suffering in terms of tax non-compliance. It also affects the state's spending on national security and poverty alleviation schemes and hence this system cannot go on indefinitely. Therefore, if you see the trend in most developed countries, they bade goodbye to it.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/steps-taken-to-bring-down-cost-of-digital-transactions-arun-jaitley/articleshow/60238491.cms

Dated: Aug 26, 2017

- **30 Crore Families Got Jan Dhan Accounts,Rs 65,000 Crore Deposited:** At least 30 crore new families have got Jan Dhan accounts in which almost Rs 65,000 crore have been deposited. The banks have conducted surveys about how the common man has benefitted from Jan Dhan Yojna as also from insurance schemes like Pradhan Mantri Jeewan Jyoti Bima Yojna and Pradhan Mantri Suraksha Bima Yojna, from RuPay Card and Pradhan Mantri Mudra Yojna and these surveys have thrown up "inspiring stories. The schemes like Pradhan Mantri Jeewan Jyoti Bima Yojna and Pradhan Mantri Suraksha Bima Yojna, with a small premium of one rupee or thirty rupees, are giving a new sense of confidence to the poor. The Jan Dhan Yojna had been a point of discussion among the financial pundits, not just in India, but all over the world. Thirty crore new families have been linked to this scheme, bank accounts have been opened. This number is larger than the population of many countries of the world. Under the Jan Dhan Yojna, almost Rs 65,000 crore have deposited in banks by the under privileged people. In a way, this is a saving for the poor this is his empowerment for the future and those who opened their accounts under the Pradhan Mantri Jan DhanYojna, have received the benefit of insurance as well. For many families, in times of adversity like the demise of the head of the family, they receive Rs 2 lakh in a matter of days through the one-rupee insurance. Under the Pradhan Mantri

Mudra Yojna, millions and millions have been able to get loans from banks without any guarantee. They have been able to stand on their own feet and have succeeded in giving employment to one or two other people as well.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/rs-65000-crore-in-30-crore-jan-dhan-accounts-pm-narendra-modi/articleshow/60243196.cms

Dated: Aug 27, 2017

- **Government Ready To Provide Capital Support For PSU Banks' Merger':** The finance ministry is open to providing capital support for facilitating consolidation among state-owned banks, which are reeling under mounting bad loans. The Union cabinet has approved the setting up of an alternative mechanism, or a panel of ministers, to decide on consolidation proposals for state-run banks. On receiving a proposal from stressed banks, if the ministerial panel finds that the merger is going to create a strong bank, it will not let it go for want of fund shortage. First, the merger proposal should come from the board. If the Alternative Mechanism finds the match viable, the finance ministry could provide capital support to the acquiring bank if there is a shortfall. The government is keen that at least one merger proposal reaches a logical conclusion by the end of the current fiscal, which is next March-end. Finance Minister after the Cabinet decision stated that the government has not set any target for consolidation. There are now 20 Public Sector Banks (PSBs) other than SBI. These state-owned banks are grappling with Rs 6 lakh crore worth of Non-Performing Assets (NPAs) or bad loans, which is about 75 per cent of the total distress. After in-principle approval for consolidation, the banks would take steps in accordance with the law and SEBI requirements. The final scheme will be approved by the Cabinet. It is not necessary that a larger public sector bank should overtake a small or mid-size lender. If there is synergy, two or three banks can merge to create a bigger and stronger entity so that the dependence on public exchequer is minimized. Earlier this year, the government had approved the merger of SBI's five associate banks with itself. In March, the Cabinet also approved the merger of Bharatiya Mahila Bank (BMB) with SBI. Five associates and BMB became part of SBI on April 1, 2017, catapulting the country's largest lender to among the top 50 banks in the world. State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT), besides BMB, were merged with SBI. With the merger, the total customer base of the SBI reached around 37 crore with a branch network of around 24,000 and nearly 59,000 ATMs across the country. The merged entity began operation with deposit base of more than Rs 26 lakh crore and advances level of Rs 18.50 lakh crore. SBI first merged State Bank of Saurashtra with itself in 2008. Two years later, State Bank of Indore was merged with it.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/ government-ready-to-provide-capital-support-for-psu-banks-merger/articleshow/60244939.cms

Dated: Aug 27, 2017

- **PSU Banks Take Recovery Action Against 5,954 Wilful Defaulters:** Public Sector Banks have taken loan recovery action under SARFAESI law against 5,954 willful defaulters owing about Rs 70,000 crore to the lenders. At the end of March 31, 2017, 21 banks together have taken action against 5,954 willful defaulters under Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, as per data collated by the Finance Ministry. The country's largest lender SBI has taken action against 1,444 such defaulters with outstanding loan of Rs 20,943 crore. Remaining 20 banks have taken action against 4,510 wilful defaulters with outstanding loan of Rs 48,496 crore. Total outstanding loans due to public sector banks by wilful defaulters amounted to Rs 92,376 crore, according to the finance ministry data. The total outstanding loans by wilful defaulters rose to Rs 92,376 crore at the end of financial year 2016-17, from Rs 76,685 crore at the end of fiscal 2015-16 -- up 20.4 per cent. At the same time, there has been close to 10 per cent increase in the number of wilful defaulters on annual basis. It increased to 8,915 at the end of March as against 8,167 in the previous fiscal. Out of 8,915 cases of wilful defaults, banks have filed FIR (first information report) in 1,914 cases with outstanding loans of Rs 32,484 crore. During 2016-17, 27 public sector banks, including SBI and its five associates, had written off Rs 81,683 crore, the highest in the last five fiscals. The amount was 41 per cent higher than that in the previous fiscal. Gross NPAs of the public sector banks rose to Rs 6.41 lakh crore at the end of March 2017 as against Rs 5.02 lakh crore a year ago. In order to check incidences of wilful default, RBI has tightened the norms and made it clear that promoter of the defaulting company cannot escape from his responsibility even if he is not a whole-time director. As per earlier guidelines, a bank couldn't label a non- whole-time director of a company as a willful defaulter unless there was conclusive evidence that the individual was aware of the willful default by the company and had not objected to it. A willful default occurs when a borrower does not honor an obligation despite having the capacity to pay or siphons off funds by disposing of assets without the knowledge of the bank, according to RBI. RBI has allowed banks to name and shame willful defaulters by publishing their photographs.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/psu-banks-take-recovery-action-against-5954-wilful-defaulters/articleshow/60242935.cms

Dated: Aug 27, 2017

- **HSBC India Investment Banking Head Sunil Sanghai Quits:** Foreign lender HSBC India's vice chairman and investment banking head Shri Sunil Sanghai quit the British banking giant today and joined hands with the Shri Dinesh Kanabar-promoted tax and regulatory firm Dhruva Advisors to start a merchant banking division. The veteran i-banker and Dhruva has announced a joint venture which will be offering investment banking solutions. Shri Sanghai, who has been occupying the current position since March 2016 and with HSBC since 2010, quit the bank earlier during the day. The foreign bank has been on a consolidation mode here for the past few years, which has seen a decision to almost halve its retail presence and shuttering the wealth management vertical. The joint venture will commence by the end of next month. Before joining HSBC, Shri Sanghai, who started his career in 1992, worked as Goldman Sachs' managing director and co- head for investment banking and also has had stints with Morgan Stanley and JM Financial. Dhruva's tax structuring expertise and Sanghai's ability to execute complex mergers and acquisitions makes the JV "an extraordinary platform".

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/hsbc-india-investment-banking-head-sunil-sanghai-quits/articleshow/60263204.cms

Dated: Aug 28, 2017

- **Shareholders Can Play Spoilsport For Lenders Banking On Resolution Plan:** Amid the euphoria over Bankruptcy Code and hopes of turning around debt-ridden companies, many lenders have overlooked a simple, yet crucial, caveat. Almost all significant decisions such as offering preference shares to infuse funds into a defaulting company, selling properties and assets, floating convertibles, and declassifying the promoter following a dilution of shareholding - have to be approved by shareholders of the company in question; and some key decisions have to be cleared by a special resolution, requiring the support of 75% shareholders. Since existing promoters, who resist giving up control, are also significant stakeholders in such companies, they could oppose key resolutions to frustrate lenders. It was felt that in several cases one would have to obtain exemptions from the ministry of corporate affairs to allow insolvency professionals to rope in investors without seeking the permission of shareholders. Bringing in new investors and diluting the control of the existing promoter cannot be pushed through by sidestepping or violating the Companies Act, 2013. SEBI has allowed a company (under insolvency) to issue preferential shares, Chapter IV of the Companies Act requires that such a decision has to be passed by special resolution of the shareholders. Another concern shared within the legal fraternity is a possible conflict with the rights of minority shareholders following a reduction in share capital in the course of insolvency resolution. According to the law, any financial creditor (among other creditors) can file an insolvency petition before the National Company Law Tribunal (NCLT) which was formed to resolve corporate disputes, improve ease of doing business, and enable faster implementation of the bankruptcy code. Within 14 days, the tribunal has to

pass an order for insolvency resolution. Once NCLT passes its order, the severity of the bankruptcy code comes to the fore: an insolvency practitioner steps in to take possession of the company's assets, replace the board with a committee of creditors, issue public notices, and run the company as a going concern. In the next 180 days, which can be stretched by another 90 days, a resolution package comprising a debt rejig, the entry of new investors, infusion of fund by promoters, among other conditions is drawn up. The company goes into liquidation if either the management or creditors with at least 75% of the outstanding loans turn down the revival package.

Source: http://economictimes.indiatimes.com/industry/ banking/finance/banking/ shareholders- can-play-spoilsport-for-lenders-banking-on-resolution-plan/articleshow/60267090 .cms

Dated: Aug 29, 2017

- **Bank of Baroda Customers Wrongly Debited With NEFT And RTGS Fees:** Over 8000 customers of state-run lender Bank of Baroda found their current and savings account erroneously debited with NEFT and RTGS transaction charges after the process of upgrading the bank's core banking software led to technical glitches in the NEFT, RTGS and outward clearing-related transactions. Approximately 8300 accounts were also impacted on August 19, 2017 on account of erroneous debit of service charges that were not due from the customers. These charges have since been reversed and impacted customers have been duly informed via SMS on August 20, 2017. The bank is migrating its core banking technology platform to the latest Finacle version 10.x that is aimed to provide enhancement in services to its customers. According to the bank a similar upgradation exercise was carried out on August 12-13 which was carried out smoothly. The bank has a customer base of over 73 million who are been migrated to the new system. Despite the appeal made by the banks via SMSes, notices in newspapers and a similar communication on its website customers panicked after seeing multiple auto-debits from their accounts. Considering the massive scale and magnitude of the upgradation, there have been some glitches in the NEFT/ RTGS and Outward clearing related transactions, which have been addressed by our team on a war footing basis around the clock and have largely been fixed ever since.

Source: http://economictimes.indiatimes.com/industry/ banking/finance/banking/bank-of-baroda-customers-wrongly-debited-neft-and-rtgs-fees/articleshow/60271903.cms

Dated: Aug 29, 2017

- **Top 50 Defaulters In The Dock, RBI Readies Second List:** After sending 12 companies to the National Company Law Tribunal for faster resolution of non-performing assets, the central bank is all set to release its second list with 30-40 names of top defaulters including Videocon Industries, JSPL, Uttam Galva, Visa Steel and Castex Technologies. The second list of companies that the central bank is likely to advise the lenders to refer to the NCLT for a time bound resolution are expected to be in steel, power, infrastructure and commodity sectors, officials. The move will expedite the process of resolution of 60% of the 7 lakh crore of non-performing loans that slowed lending and hit profitability of Indian banks in the last one decade. The companies that would be listed by RBI soon would owe Rs 3,000 crore to Rs 50,000 crore each to banks and most of the firms have already been listed under SMA1 and SMA2 by various banks. For instance JSPL owes over Rs 45,000 crore to the banks, Visa Steel owes Rs 3,000 crore to banks, while the consortium of lenders have an exposure of Rs 5,000 crore to Uttam Galva, which is also likely to be the part of RBI's second top defaulter list. The Banking Regulation (Amendment) Ordinance promulgated on May 4 and later ratified by the Parliament, empowered the RBI to direct banks to initiate insolvency proceedings in respect of default under the provisions of the Insolvency and Bankruptcy Code, 2016 (IBC). RBI was quick to follow up on the move and listed out 12 top defaulters to be taken to NCLT for resolution. The 12 companies included Essar , Bhushan Steel, Lanco Infra, among others.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/top-50-defaulters-in-the-dock-rbi-readies-second-list/articleshow/60279127.cms

Dated: Aug 29, 2017

- **RBI Cracks Whip On 50 More Defaulters Having Rs 2 Lakh Crore Outstanding:** The Reserve Bank of India (RBI) has directed banks to refer as many as 50 dud accounts to bankruptcy court if they are unable to find a resolution for them in about three months, in the second such list that the regulator has sent out in its renewed campaign to clean up the country's overwhelming bad corporate debt problem. The move will not only put pressure on promoters to come up with workable recast strategies but also pinch banks even more as they will have to make higher provisions on loans of companies referred to the insolvency process. Each bank has got a separate list from the RBI. It is estimated that the number of corporate accounts involved at 45-50 with about Rs 2 lakh crore in outstanding loans. It was in June that RBI had sent out the first list of 12 accounts that added up to about Rs 2.5 lakh crore in money owed. The new list is said to include companies such as Videocon Industries, Uttam Galva, Essar Projects and Ruchi Soya all of which have debt that was classified as non-performing as of June in the books of at least 60% of lenders. The other companies in this second list are said to include Jaiprakash Associates, Visa Steel, Videocon Telecom, Monnet Power, Orchid Chemicals, SEL Manufacturing, Nagarjuna Oil Refinery, Castex, Jayswal Neco, East Coast Energy, Soma Enterprises, Asian Colour, Unity Infraprojects, Jai Balaji Industries, Shakti Bhog, Ushdev International, East Coast Energy and Transstroy India. The exposure of lenders to these ranges from Rs 44,000 crore in the case of Videocon Industries to Ruchi Soya's Rs 10,000 crore. RBI has set a deadline of December 13 to put in place a resolution plan for all the bad loans. If this is missed, banks will have to refer the cases to bankruptcy court by December 31, said two senior bank officials. Further, the regulator has said that the banks will have to make a 50% provision for the loan amount the moment a case is referred to the National Company Law Tribunal (NCLT) as part of the process. Also, provisions on the second list will have to be made within this fiscal year itself. The dozen companies that RBI had directed banks in June to initiate insolvency resolution processes against included Essar Steel, Lanco and Jaypee Infratech. Banks were directed to make 50% provision when a company was referred to NCLT and 100% when liquidation was opted for. Once a company is admitted in the NCLT, promoters will lose control with a resolution professional taking charge and the board being dissolved. Banks are in for even tougher times as India pushes to resolve its bad loan problem, regarded as a macroeconomic risk that needs to be fixed before it further undermines the country's economic revival programme. But bankers say they are caught in a bind. This is going to be a year of resolution. It's a Catch-22 situation. If we try to punish the borrower for indiscipline in credit culture, we will also suffer since RBI has mandated 50% provision. Banks will be burdened with a huge amount of provisions

this year as well and since capital from the government is not very forthcoming, it will be a difficult year. When RBI issued the list of 12 companies, it had indicated to banks that they should work on resolution plans for 500 of the biggest sticky loans within six months, failing which they should initiate recovery through the Insolvency and Bankruptcy Code (IBC).

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-asks-banks-to-get-cracking-on-50-big-defaulters-having-rs-2-lakh-crore-outstanding/articleshow/60283350.cms

Dated: Aug 30, 2017

- **Grameen Bank Model Has Reached 300 Million People Worldwide:** As per Bangladeshi Nobel Laureate and the founder of Grameen Bank Shri Mohd Yunus, Grameen Bank model has now reached nearly 300 million borrowers across the world. After changing lives of over 9 million people in Bangladesh and generating 100,000 dollars in US, our Grameen Bank experiment has been able to benefit an estimated 300 million borrowers across the world including Brazil. The micro-credit turned into an alternative investment fund to help fight unemployment. The mentality to start own ventures is there, everywhere in world including Bengal. But you have to be with them (the young unemployed). There is this ocean of money all around. Poor people just want a sip of that money and we should reach it out to them," he said adding even rich people become defaulters in bank loans "but conventional banks still reach out to the rich. While there can always be fly-by-night firms in a system and laws and legislation to check their activities, if you refer to the micro-credit concept mooted by us, it never collects money from depositors.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/grameen-bank-model-has-reached-300-million-people-worldwide-mohd-yunus/articleshow/60291330.cms

Dated: Aug 30, 2017

- **Anxiety For PPI Players Remain As RBI Does Not Announce A Time Frame For Final Guidelines:** As per Reserve Bank of India, In what could be further months of anxiety for the digital payments industry two crucial decisions on digital payments will be released next year without giving the timeframe. In the annual report for the year 2016-17 released today, both the decisions around merchant discount rate or the price that a merchant pays for digital transactions to the bank and the final release of guidelines around the prepaid payments industry or the digital wallet operators have been slated to be released next year after comprehensive evaluation of the feedback received from the industry. PPI guidelines were comprehensively reviewed and draft Master Directions on issuance and operation of PPIs were placed on the bank's website on March 20, 2017 for public comments by April 15, 2017. Final circular would be issued in the coming year after examination of the feedback. The same it repeated for the MDR as well, slating it to be released next year. While the RBI had not officially slated a date for the release of these guidelines the industry is still hopeful that the final decisions on regulations of the industry and the charges for digital transactions will be released within two months. Hoping that by saying next year the regulator must have meant next financial year till March 2018. The directions have already been set by the government and now we are waiting for the final key points for the industry which will help us start the action. The National Payments Corp was conducting trials and the final approval would be given only next year after looking at the results of the project.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/anxiety-for-ppi-players-remain-as-rbi-does-not-announce-a-time-frame-for-final-guidelines/articleshow/ 60294131.cms

Dated: Aug 30, 2017

- **Consolidation Among Public Sector Banks Exempted From Scrutiny:** The government has exempted consolidation among public sector banks from the scrutiny of competition authority. The exemption will cover all cases of reconstitution, transfer of the whole or any part of nationalized banks and will be available for a period of 10 years. In a gazette notification, the provisions of Sections 5 and 6 of the Competition Act, 2002 will not apply in these cases. Sections 5 and 6 of the Competition Act regulate 'combinations', and requires prior notification and approval of the competition watchdog. The union cabinet had last week given in-principle approval for public sector banks to amalgamate through an alternative mechanism. A panel of ministers will decide on merger proposals. The decision would facilitate consolidation among the nationalized banks to create strong and competitive banks. The government is expected to nudge state-run bank to come with merger and consolidation proposals to the alternate mechanism.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/ consolidation-among-public-sector-banks-exempted-from-scrutiny/articleshow/60299571.cms

Dated: Aug 31, 2017

- **Govt May Delay PSB Mergers As RBI's New Norm On Insolvency May Hit Banks Balance Sheet:** The government may be forced to put its state-run bank consolidation push on the back burner since at least a dozen of them are staring at a big hole in the balance sheet this fiscal year after RBI told them to get cracking on resolving as many as 50 bad loan accounts or initiate bankruptcy proceedings against them by December end. The banks will have to set aside 50 per cent of debt the moment a company is referred to the National Company Law Tribunal as part of the insolvency process. This will pinch the banks even more, with most having provided for 25-30 per cent only. In the event of a resolution, banks will typically need to take a haircut as well. Either way, the provision costs would continue to increase sharply for the rest of FY18 though the extent could vary among banks. Banks, especially PSBs, are facing a vicious cycle wherein their profitability is inadequate and current capitalization profile cannot absorb the haircuts as they deal with bad assets. The central bank has set a December 13 deadline for loan resolution, failing which banks have to initiate proceedings under the Insolvency and Bankruptcy Code (IBC) by December 31. The new list includes Videocon Industries, Uttam Galva, Ruchi Soya, Visa Steel, Jaiprakash Associates and Essar Projects. The government wants to reduce the number of state-owned banks from the current 21 through consolidation to create fewer but stronger entities. But that may be delayed as none of the potential acquirers will be keen on taking over weak banks due to capital constraints. As many as seven PSU banks have reported losses for two consecutive years and six are facing restrictions imposed by the banking regulator on expanding business. On top of that, the government has decided to infuse only about Rs 10,000 crore in PSU banks this fiscal year. Banks would have to make hefty provisions required or face poor recovery from most of the assets. Left to the letter of the proposal, no PSU banker will advocate a merger on commercial basis in such times. The second list of corporate account for dud loans of about Rs 2 lakh crore while the first list comprising 12 accounts amounted to about Rs 2.5 lakh crore. The banks may be forced into making cutbacks. PSBs may need to continue to shrink their scale of operations to meet regulatory capital

Losing Proposition

Banks' losses have been mounting amid the crackdown on bad loans

	PAT (₹ CRORE)	
Bank	FY15-16	FY16-17
Allahabad Bank	-743.3	**-313.5**
Dena Bank	-935.3	**-863.6**
Oriental Bank	156.1	**-1094.1**
Bank of Maha	100.7	**-1372.5**
Bank of India	-6089.2	**-1558.3**
UCO Bank	-2799.3	**-1850.7**
Central Bank	-1418.2	**-2439.1**
IOB	-2897.3	**-3416.7**
IDBI Bank	-3664.8	**-5158.1**
TOTAL	**-18290.6**	**-18066.7**

Compiled by: ETIG Database

requirements though it puts additional pressure on their incremental revenue and profits as credit costs would not come down in the near term.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/govt-may-delay-psb-mergers-as-rbis-new-norm-on-insolvency-may-hit-banks-balance-sheet/articleshow/60299290.cms

Dated: Aug 31, 2017

- **Banks Non-Food Credit Growth Slows To 5.3% In July:** Non-food bank credit growth of schedule commercials banks slowed to 5.3 per cent in July as compared with a rise of 8.3 per cent in the same month last year, the RBI data showed. Credit to agriculture and allied activities moderated to 6.8 per cent in July 2017, lower than the increase of 13.4 per cent in July last year. Personal loans rose by 15 per cent in the month, lower than the increase of 18.8 per cent in the year-ago period. Loans to industry contracted by 0.3 per cent in contrast with an increase of 0.6 per cent last year. Credit growth to major sub-sectors such as infrastructure, basic metal and metal products, textiles, petroleum, coal products and nuclear fuels and all engineering witnessed contraction/deceleration. However, loan growth to construction, cement and cement products, rubber, plastic and their products and beverage and tobacco accelerated. Advances to the services sector increased slowed by 4.9 per cent lower than the increase of 10.8 per cent in July 2016, the data showed.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/banks-non-food-credit-growth-slows-to-5-3-in-july/articleshow/60311295.cms

Dated: Aug 31, 2017

INDIA'S FOREIGN TRADE

- **Merchandise Trade:-**
  - **Exports (Including Re-Exports):** In continuation with the positive growth exhibited by exports for the last eleven months, exports during July 2017 have shown growth of 3.94 per cent in dollar terms valued at US$ 22543.80 million as compared to US$ 21689.57 million during July,2016. In Rupee terms, during July 2017 exports were valued at Rs. 145308.10 crore as compared to Rs.145770.39 crore during July,2016, registering a negative growth of 0.32 per cent. During July 2017, Major commodity groups of export showing positive growth over the corresponding month of last year are Engineering Goods (15.16%), Petroleum Products (20.27%), Organic & Inorganic Chemicals (20.67%), Cotton Yarn/Fabs./made-ups, Handloom Products etc.(5.39%) and Marine Products(30.53%) Cumulative value of exports for the period April-July 2017-18 was US $ 94756.13 million (Rs 610780.14 crore) as against US $ 87001.34 million (Rs 582731.37 crore) registering a positive growth of 8.91 per cent in Dollar terms and 4.81 per cent in Rupee terms over the same period last year. Non-petroleum and Non Gems & Jewellery exports in July 2017 were valued at US$ 22543.80 million against US$ 21689.57 million in July 2016, an increase of 6.93%. Non-petroleum and Non Gems and Jewellery exports during April -July 2017-18 were valued at US$ 94756.13 million as compared to US$ 87001.34 million for the corresponding period in 2016-17, an increase of 9.05%.
  - **Imports:** Imports during July 2017 were valued at US$ 33993.61 million (Rs 219108.89 crore) which was 15.42 per cent higher in Dollar terms and 10.70 per cent higher in Rupee terms over the level of imports valued at US$ 29450.97 million (Rs. 197932.93 crore) in July, 2016. Cumulative value of imports for the period April-July 2017-18 was US$ 146256.71 million (Rs. 942740.00 crore) as against US$ 113996.75 million (Rs. 763687.22 crore) registering a positive growth of 28.30 per cent in Dollar terms and 23.45 per cent in Rupee terms over the same period last year. Major commodity group of imports showing high growth in July 2017 over the corresponding month of last year are Petroleum, Crude & products (15.02%), Electronic goods (22.5%), Machinery, electrical & non-electrical (7.34%), Pearls, precious & Semi-precious stones (6.86%) and Gold (95.05%).
  - **Crude Oil And Non-Oil Imports:** Oil imports during July, 2017 were valued at US$ 7844.94 million which was 15.02 percent higher than oil imports valued at US$ 6820.34 million in July 2016. Oil imports during April-July, 2017-18 were valued at US$ 31022.43 million which was 20.87 per cent higher than the oil imports of US$ 25666.96 million in the corresponding period last year. In this connection it is mentioned that the global Brent prices

($/bbl) have increased by 8.03 % in July 2017 vis-à-vis July 2016 as per World Bank commodity price data (The pink sheet). Non-oil imports during July, 2017 were estimated at US$ 26148.67 million which was 15.55 per cent higher than non-oil imports of US$ 22630.63 million in July, 2016. Non-oil imports during April-July 2017-18 were valued at US$ 115234.28 million which was 30.46 per cent higher than the level of such imports valued at US$ 88329.79 million in April-July, 2016-17.

- **Trade In Services:-**
  - **Exports (Receipts):** Exports during June 2017 were valued at US$ 13388 Million (Rs. 86276.29 Crore) registering a negative growth of 0.31 per cent in dollar terms as compared to positive growth of 4.08 per cent during May 2017 (as per RBI's Press Release for the respective months).
  - **Imports (Payments):** Imports during June 2017 were valued at US$ 7457 Million (Rs.48055.15 Crore) registering a negative growth of 2.07 per cent in dollar terms as compared to positive growth of 5.44 per cent during May 2017 (as per RBI's Press Release for the respective months).
- **Trade Balance:-**
  - **Merchandise:** The trade deficit for July 2017 was estimated at US$ 11449.81 million as against the deficit of US$ 7761.40 million during July 2016.
  - **Services:** As per RBI's Press Release dated 14th August 2017, the trade balance in Services (i.e. net export of Services) for June, 2017 was estimated at US$ 5931 million.
  - **Overall Trade Balance:** Taking merchandise and services together, overall trade deficit for April-July 2017-18 is estimated at US$ 34072.58 million as compared to US$ 10799.41 million during April-July 2016-17. (Services data pertains to April-June 2017-18 as June 2017 is the latest data available as per RBI's Press Release dated 14th August 2017)

MERCHANDISE TRADE

Exports & Imports : (US $ Million)		
	July	**April-July**
Exports (Including Re-Exports)		
2016-17	21689.57	87001.34
2017-18	22543.80	94756.13
% Growth 2017-18/ 2016-17	**3.94**	**8.91**
Imports		
2016-17	29450.97	113996.75
2017-18	33993.61	146256.71
% Growth 2017-18/ 2016-17	**15.42**	**28.30**
Trade Balance		
2016-17	-7761.40	-26995.41
2017-18	-11449.81	-51500.58
Exports & Imports : (Rs. Crore)		
	July	**April-July**
Exports (Including Re-Exports)		
2016-17	145770.39	582731.37
2017-18	145308.10	610780.14
% Growth 2017-18/ 2016-17	**-0.32**	**4.81**
Imports		
2016-17	197932.93	763687.22
2017-18	219108.89	942740.00
% Growth 2017-18/ 2016-17	**10.70**	**23.45**
Trade Balance		
2016-17	-52162.54	-180955.85
2017-18	-73800.79	-331959.86

SERVICES TRADE

Exports & Imports (Services) (US $ Million)	
	June 2017
Exports (Receipts)	13388
Imports (Payments)	7457
Trade Balance	5931
Exports & Imports (Services) (Rs. Crore)	
	June 2017
Exports (Receipts)	86276.29
Imports (Payments)	48055.15
Trade Balance	38221.14

Restore Priority Sector Status For NBFC Gold Loans To Agriculture (Shri V.P. Nandakumar, Shri V.P. Nandakumar MD & CEO, Manappuram Finance Ltd.)

In February 2011, the Reserve Bank of India (RBI) withdrew the priority sector lending (PSL) status for gold loans given by NBFCs to farmers. Consequently, banks that were refinancing such loans to meet their own PSL targets, pulled out of the arrangement with the result that borrowing costs for NBFCs went by 150 to 200 bps. No doubt, RBI's intention was that banks should step up direct involvement in PSL to bring down the cost to the end user. Moreover, those were days when gold loan NBFCs were growing at literally break-neck speeds. With concerns about sustainability, and fears that the business was aggravating gold imports (and India's current account deficit), it was perhaps a logical intervention.

Since then, a lot has changed for gold loan NBFCs. In 2012, there was a sudden tightening of regulations by RBI. Among other measures, a cap of 60 percent was imposed on the maximum permissible loan to value (LTV) ratio for gold loans given by NBFCs. The next year saw a sharp correction that marked a reversal of the decade long bull run in gold prices. The gold loan business recovered only after the RBI eased the cap on LTV to 75 percent in 2014 and made it applicable to all players (including commercial banks) thereby levelling the playing field. Today, the gold loan sector is back on the growth path but at a pace quite sedate compared to those heady years up to 2012.

India's programme of directed or priority sector lending (PSL) began in the late 1960's. All commercial banks are required to extend loans to agriculture, exports, small business, housing, and weaker sectors of society on preferential terms and conditions. The rationale is that these sectors of strategic importance would otherwise have limited access to formal credit at reasonable rates. Besides India, many other countries used directed lending to meet development objectives. In Japan and South Korea, well implemented directed lending programs gave momentum to domestic industry during the crucial take-off phase. In Brazil and India, on the other hand, the experience has been less satisfactory. In China, directed loans to large state-owned enterprises saddled the banking system with high NPAs. In the US, the housing bubble in the first decade of this millennium was perhaps unwittingly initiated by government policies designed to lower cost of credit for home ownership. Indeed, an assessment of the experience of countries in directed lending shows that the overall costs of implementing such programs can outweigh the gains and many countries have curtailed it.

As currently defined by the RBI, the priority sectors in India are agriculture, micro and small enterprises, micro credit, education, housing, export credit, and weaker sections. PSL norms in force in India stipulate certain restrictions in terms of type of recipients, the use of funds etc. For example, with our balance of trade in perennial deficit, exports are considered a national priority and the exporter who borrows money to pay for wages and raw materials is justifiably entitled to subsidised loans. Likewise, investments by banks in the securitised assets of NBFCs representing loans to various categories of priority sector are also eligible for PSL status provided the interest charged to the borrower by the NBFC does not exceed a specified cap (8 percent over the base rate of the bank). However, securitised assets originated by NBFCs, where the underlying assets are loans against gold jewellery are not eligible for priority sector status. But, at the same time, gold loans given by banks to agriculture continue to enjoy priority sector status. This distinction, unwarranted I would argue, has opened up a new front in the discriminatory treatment of NBFCs vis-à-vis banks. It is based on the perception that higher interest rates charged by gold loan NBFCs nullifies gains to beneficiaries. That may seem logical on paper but is less so in practice. Here's why.

One of the surprises about India is that more gold is owned by its rural population than by its urban counterpart. Given the poor reach of banks, India's poor have historically preferred gold as the outlet for their savings. In villages, the post harvest surplus is usually parked in gold to be either sold or pledged in times of need. And when it comes to pledging gold to raise money, the choice of the service provider is determined largely by proximity to home. That, for long, meant going to the neighbourhood pawnbroker whose loans were free of hassles but whose terms were adverse. In recent years, gold loan NBFCs have stepped up to the plate offering greater transparency and a better deal to borrowers. Certainly, compared to the banks, their interest rates are higher. But, to the farmer on the ground, this comparison has little meaning. For him, the apt comparison is not with banks to which they lack access anyway, but with the local moneylenders on whom they would fall back otherwise.

If we have decided that a marginal farmer deserves subsidy on his borrowings, should not the subsidy flow into whatever loan that meets his needs best? Put another way, instead of helping a hungry man by explicitly subsidizing his rice and wheat, why not let him choose what he wants to eat based on his needs and availability, and have the subsidy directed accordingly? A vegetable which sells at Rs. 8 per kilo at a distant supermarket may sell at Rs.10 per kilo at the neighbourhood kirana store. A superficial comparison says the kirana store is 25 percent more expensive. But once the time and cost of travel is factored in, the advantage evaporates. To someone subsisting on daily wages and accustomed to buying groceries in small quantities, the trip to the supermarket will not be worth it. On the other hand, help with purchases at the nearby kirana store would be worthwhile and offer tangible benefits. A government genuinely interested in improving his lot would not, then, hesitate to partner with the kirana store. Likewise, in the context of gold loans to agriculture, the definition of priority sector must take into account the reality that prevails on the ground. India's farmers need help based on how things are, how things should be is not the pressing concern for them. The priority sector must embrace the loans that farmers actually take or have access to, be it from banks or from NBFCs.

In 2015, RBI released the "Report of the Internal Working Group to Revisit the Existing Priority Sector Lending Guidelines" which suggested revisions in guidelines for PSL classification that would, among other suggestions, allow greater flexibility in agricultural lending. The focus, it was observed, has to shift to lending for agriculture rather than lending to agriculture. A farmer may use a small ticket, short term gold loan to meet a variety of needs from pressing household expenses to meeting emergency healthcare expenses. In the larger scheme of things, it should still count as a loan for agriculture. It must also be considered priority sector irrespective of whether it is availed from a bank or from an NBFC.

TOP BANKING APPOINTMENT

- **Shri Mohammad Mustafa Is SIDI's New CMD:** The Centre has appointed Shri Mohammad Mustafa, a 1995 batch IAS officer, as Chairman and Managing Director of Small Industries Development Bank of India (SIDBI). Prior to this appointment, Mustafa was Joint Secretary in the Department of Financial Services (DFS) in the Finance Ministry. The Appointments Committee of the Cabinet has approved his appointment for a period of three years, according to a Department of Personnel and Training (DoPT) order.

Source: http://www.thehindubusinessline.com/money-and-banking/mohammad-mustafa-is-sidbis-new-cmd/article9803491.ece

Dated: Aug 05, 2017

- **Shri Ajay Vipin Nanavati Is New Syndicate Bank Chairman:** Shri Ajay Vipin Nanavati has been appointed as the chairman of Syndicate Bank. The appointments committee of the cabinet has approved his appointment as non-official director/non-executive chairman of Syndicate Bank for three years, according to an order issued by the department of personnel and training. In 2015, the government had bifurcated the posts of chairman and managing director in public sector banks. While the chairman became responsible for overall policy directions, the managing director and chief executive officer became the executive head, accountable for day-to-day functioning of the bank.

Source: http://www.livemint.com/Companies/lhR2YeveA9TYNG0dy7G7kI/Ajay-Vipin-Nanavati-is-new-Syndicate-Bank-chairman.html

Dated: Aug 21, 2017

- **Shri Nachiket Mor Re-Appointed To RBI's Central Board For 4 Years:** Shri Nachiket Madhusudan Mor, country director of Bill & Melinda Gates Foundation, has been re-appointed to the central board of the Reserve Bank of India (RBI) for four more years. The central government has re-appointed Dr. Nachiket Madhusudan Mor as a member of the Eastern Area Local Board of Reserve Bank of India and has also nominated him to be a director of the central board of directors of Reserve Bank of India. Shri Mor's appointment is effective from 24 August, 2017, and is for a period of four years or until further orders whichever is earlier. Shri Mor was first nominated as director on the RBI board in 2013.

Source: http://www.livemint.com/Companies/v4O8KGjhoJ3lJMccv26lhN/Nachiket-Mor-reappointed-to-RBIs-central-board-for-4-years.html

Dated: Aug 25, 2017

TOP BANKING DEVELOPMENT

- **Kotak Bank Launches Debit Card Offer For Zero Balance Account:** Private sector Kotak Mahindra Bank will offer debit card at a special price of Rs 99 for the first year for customers who will open account under its zero balance account scheme till September 15. The usual annual fee for debit card procured by 811 account holders (zero balance) is Rs 299. The name 811, inspired by November 8, 2016, decision of demonetization, allows customers to open a zero balance account using the bank's mobile application. To mark the 70th anniversary of country's independence, the special edition debit card will be available to customers who open an 811 account from August 8, 2017 to September 15, 2017.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/kotak-bank-launches-debit-card-offer-for-zero-balance-account/articleshow/59974775.cms

Dated: Aug 08, 2017

- **ICICI Bank Launches Instant Credit Cards:** ICICI Bank has launched instant credit cards enabling its savings account customers to get a credit card instantly, in a completely digital and paperless manner. The bank has opened up this offering to a few Lakhs of pre-qualified customers who can apply for the card online and generate card details and start shopping online instantly. Available round-the-clock and on all days, the bank has opened up the card with a credit limit of up to Rs. 4 Lakhs based on pre-checked bureau scores. The application procedure also incorporates an additional level of authentication in order to make the offering secured. Customers will also get the physical credit card within few working days. With the festive season just around the corner, there will be many interesting offers with online partners in various categories like shopping, travel and entertainment among others. ICICI believes that this unique proposition, which is first of its kind in the industry, will empower their customers to instantly get the credit card online in a few steps and immediately start transacting on e-commerce sites to take advantage of the offers. Currently, this facility to apply for a credit card in–a-flash is available through the Bank's internet banking platform. It will also be available shortly on i-Mobile, the Bank's mobile banking application.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/icici-bank-launches-instant-credit-cards/articleshow/59982691.cms

Dated: Aug 09, 2017

- **IDFC Bank Partners With Zeta For Digital Payments Solution:** Private sector lender IDFC Bank has partnered with digital payments company Zeta, to launch 'IDFC Bank Benefits' a payment solution for corporate that digitizes employee spends and claims, making the process simple, real-time and paperless. The end-to-end digital solution comprises an IDFC Bank Benefits Card and Zeta app which integrates the full suite of allowances and reimbursements offered by an employer into one preloaded card. Employees can also access the Benefits Card via the Zeta app on mobile or web. This enables them to track spends, entitlement limits and submit claims, digitally, while on-the-move. The IDFC Bank Benefits solution developed jointly with Zeta allows for bank-like payment features outside the traditional banking relationship. It offers a strong value proposition to both employers as well as employees. The Benefits Card and Zeta app enhance user experience as it places convenience and flexibility in the hands of the employee, while enabling employers to digitally review and manage reimbursements. While the solution is being initially launched as an integrated Benefits Card for medical, meal, LTA and fuel reimbursements, it can be extended to other categories of allowances as well. Employees can avail the benefits of the IDFC Benefits card also via the Zeta app on the mobile or on the web and Zeta Super Tag (Zeta's NFC payment solution). The Zeta app offers employees a real time view of spends, reimbursement limits and claims. It also allows for selecting the dependents for whom the purchase is being made and tagging it to the corresponding expense; and finally, submitting the claim for review without any paperwork. Integrated in-app shops allow for easy online purchases. The Zeta Super Tag can be attached to any device to turn it into a payment device. This partnership is forged at a time just when Zeta is foraying into cutting-edge banking tech solutions, and we look forward to reaching lakhs of salaried professionals across industries with the digital programme.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/idfc-bank-partners-with-zeta-for-digital-payments-solution/articleshow/59983510.cms

Dated: Aug 09, 2017

- **Karur Vysya Bank Opens Its First Aadhaar Enrollment Centre:** Karur Vysya Bank rolled out an Aadhaar Enrollment Centre at its Nelson Manickam Road Branch in Chennai. The facility was inaugurated by Shri D.M. Gajare, Assistant Director General, Unique Identification Authority of India (UIDAI), Regional Office, Bangalore. KVB is the first private sector bank to provide this service in India. UIDAI had advised all commercial banks to provide Aadhaar enrollment and updation facility at their branches through its notification on July 13, 2017. Karur Vysya Bank immediately identified branches and ensured early implementation of the directive. Following the inauguration of the facility at Chennai, KVB will provide Aadhaar enrollment and updation of Aadhaar data facilities to all its customers at this centre. Customers have to bring with them any of the approved documents as proofs of residence and identity. The process can be completed in about 15 minutes. The bank plans to make this service available at 75 more branches across the country.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/karur-vysya-bank-opens-its-first-aadhaar-enrollment-centre/articleshow/60088862.cms

Dated: Aug 16, 2017

- **BSNL Unveils Mobile Wallet For Subscribers:** State-run Bharat Sanchar Nigam (BSNL) unveiled its mobile wallet in partnership with MobiKwik to enable one-tap bill payment for its over 100 million subscribers. Besides, the subscribers will also be able to use the digital wallet at over 1.5 million merchants across India. The digital wallet, developed by MobiKwik for BSNL, is in line with the telecom corporation's intent to take the reach of digital payments to semi-urban and rural India. The app will allow users to pay for online recharges, make bill payments, shop and book bus and train tickets. The partnership will ensure that all its 100 million customers are able to "seamlessly and conveniently transact and make mobile and other financial payments through the co-branded MobiKwik wallet". BSNL claimed that with over 1.5 million merchants on the network, this is India's largest wallet by any telecom company. The alliance with BSNL will "empower masses in India with access to dependable internet connectivity and digital payments. The BSNL wallet will enable people to pay bills, recharge their phone connections and pay for their daily purchases. The wallet will work on both smartphone and feature phones.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/bsnl-unveils-mobile-wallet-for-subscribers/articleshow/60107271.cms

Dated: Aug 17, 2017

TOP RBI CIRCULARS

Circular Number	Date Of Issue	Department	Subject
RBI/2017-2018/50 Ref.No.IDMD/558/08.02.032/ 2017-18	28.8.2017	Internal Debt Management Department	Auction of Government of India Dated Securities
RBI/2017-2018/49 Ref. No. IDMD/491/08.02.032/ 2017-18	21.8.2017	Internal Debt Management Department	Auction of Government of India Dated Securities
RBI/2017-2018/48 FIDD.CO.FSD.BC.No.14/05.02.001/ 2017-18	16.8.2017	Financial Inclusion and Development Department	Interest Subvention Scheme for Short Term Crop Loans during the year 2017-18
RBI/2017-2018/47 DCBR.BPD.PCB.Cir. No.03/09.18.300/2017-18	16.8.2017	Department of Co operative Banking Regulation	Core Banking Solution (CBS) Requirements for Urban Co-operative Banks (UCBs)
RBI/2017-2018/46 Ref No.IDMD/443/ 08.02.032/ 2017-18	14.8.2017	Internal Debt Management Department	Auction of Government of India Dated Securities
RBI/2017-2018/45 DNBR (PD).CC.No.89/03.10.001/ 2017-18	14.8.2017	Department of Non Banking Regulation	Eligible Credit Rating Agencies-Rating of Fixed Deposits by Infomerics Valuation and Rating Private Limited (IVRPL)
RBI/2017-2018/44 DNBR (PD) CC.No.088/03.10.001/2017-18	14.8.2017	Department of Non Banking Regulation	Appointment of nominated counsel in the Hon'ble High Court of Delhi at New Delhi-Compliance of the Order dated 21.07.2017
RBI/2017-2018/43 FMRD.DIRD.2/14.01.002/2017-18	10.8.2017	Financial Markets Regulation Department	Reserve Bank Commercial Paper Directions, 2017
RBI/2017-2018/42 FMRD.DIRD.4/14.03.024/2017-18	10.8.2017	Financial Markets Regulation Department	Tri-Party Repo (Reserve Bank) Directions, 2017
RBI/2017-2018/41 A.P. (DIR Series) Circular No. 03	10.8.2017	Financial Markets Regulation Department	Risk Management and Interbank Dealings- Reports to the Reserve Bank
RBI/2017-2018/40 Ref.No.IDMD/318/08.02.032/ 2017-18	07.8.2017	Internal Debt Management Department	Auction of Government of India Dated Securities

Circular Number	Date Of Issue	Department	Subject
RBI/2017-2018/39 DGBA.GBD.No.279/31.02.007/ 2017-18	03.8.2017	Department of Government and Bank Accounts	Government Banking - Issue of Letters of Credit and Bank Guarantee
RBI/2017-2018/38 FIDD.CO.FSD. BC.No.13/05.10.006/2017-18	03.8.2017	Financial Inclusion and Development Department	Natural Calamities Portal – Monthly Reporting System
RBI/2017-2018/37 DBR.No.Ret.BC.80/12.06.004/ 2017-18	03.8.2017	Department of Banking Regulation	Exclusion of the name of State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore and Bharatiya Mahila Bank from the Second Schedule to the Reserve Bank of India Act, 1934
RBI/2017-2018/36 DBR.BP.BC.No. 81/21.04.098/2017-18	02.8.2017	Department of Banking Regulation	Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standard
RBI/2017-2018/35 DBR.CID.BC.No.79/20.16.042/ 2017-18	02.8.2017	Department of Banking Regulation	Issue of comprehensive Credit Information Reports
RBI/2017-2018/34 DBR.No.Ret.BC.82/12.01.001/ 2017-18	02.8.2017	Department of Banking Regulation	Change in Bank Rate
RBI/2017-2018/33 REF.No.MPD.BC.382/07.01.279/ 2017-18	02.8.2017	Monetary Policy Department	Standing Liquidity Facility for Primary Dealers
RBI/2017-2018/32 FMOD.MAOG.No.121/01.01.001/ 2017-18	02.8.2017	Financial Markets Operation Department	Liquidity Adjustment Facility – Repo and Reverse Repo Rates
RBI/2017-2018/31 FMOD.MAOG.No.122/01.18.001/ 2017-18	02.8.2017	Financial Markets Operation Department	Marginal Standing Facility

TOP EXPERT REPORTS

- **Exim Bank's USD Debt Programme Carries Moderate Risk (Moody's):** Moody's Investors Service has assigned a medium-grade of 'Baa3' rating to Exim Bank's proposed USD 10 billion debt programme that carries moderate risk. The rating outlook is positive for the proposed USD denominated senior unsecured notes issued by Export-Import Bank of India (Exim Bank). As per the global ratings firm on ratings rationale, Moody's assessment of the bank's very high dependence on, and the high probability of, support from the Government of India (Baa3 positive). As per Moody's the rating is subject to receipt of final documentation, the terms and conditions of which will not likely change in any material way from the draft documents reviewed by it. Instruments with Baa ratings are judged to be medium-grade and carries moderate credit risk and may have certain speculative characteristics as well. While, Fitch Ratings has rated the USD debt instruments of Exim Bank with an expected ratings of 'BBB(EXP)' referring to a good credit quality. Even though capacity for payment of financial commitments is considered adequate under this rating, risks remain due to adverse business or economic situations that may impair the payment capacity. As per Fitch rating on these debt instruments are at the same level as Bank's issuer default rating (IDR) taking cue from the 'Support Rating Floor' and equated with the Indian sovereign (BBB-/stable). This reflects Fitch's expectation of a high propensity of extraordinary state support for Exim, which stems from its policy role and strong government linkages.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/exim-banks-usd-debt-programme-carries-moderate-risk-moodys/articleshow/59957391.cms

Dated: Aug 07, 2017

- **Mergers Of Small Banks May Hurt MSME Sector (Resurgent India):** As per report from financial services firm Resurgent India, Mergers of small banks may hurt credit sourcing for the MSME sector as the resultant large lenders will be less keen on smaller-sized loans. The disadvantages of big banks are that services are less personable and local people abstain from reaching out to them. There are more fees associated with bigger banks and, bigger banks are less motivated to work with MSMEs on loans due to smaller business accounts. Mergers of smaller banks into big will hurt credit sourcing for MSMEs, as smaller banks will be losing their identity. The MSME sector, which provides bulk of employment, accounts for 45 per cent of India's manufacturing, 40 per cent of exports and nearly 8 per cent of the country's GDP.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/mergers-of-small-banks-may-hurt-msme-sector-report/articleshow/59930969.cms

Dated: Aug 05, 2017

- **Small Sized Education Loans More Prone To Turning Bad (Transunion Cibil):** According to a study by credit bureau Transunion CIBIL, almost 9 per cent of education loans disbursed by banks have turned into Non-Performing

Assets. But small ticket education loans upto Rs 4 lakh generally borrowed for studying in middle ranked institutes are prone to turning bad compared to large sized loans upto Rs 15 lakh, probably reflecting inadequate job opportunities in this segment. The latest TransUnion CIBIL Market Insights Report on Education Loans captures an emerging trend of sharper deterioration in small ticket loans (Below INR 4 lakh). However, the delinquency rates for education loans above the ticket size of INR 15 lakh have remained stable. These findings may have implications for lenders, some of whom largely focus on small ticket education loans. Of the Rs 77000 crore lent as education loans through 28 lakh accounts, nearly Rs 7000 crore from 3.5 lakh accounts have turned bad. But from 2012 onwards, the default rates on big ticket loans have remained steady while relative delinquency of the low ticket education loans, adjusted for amortization and tenure, have shot up to four times the delinquency rate of big ticket loans, according to the Transunion Cibil study. Besides indicating how risky the future generation of borrowers could be this trend could also be reflective of the nature of the prevailing employment market. The importance of such delinquencies can be seen in two aspects, First, these delinquency trends predict the risk profile of future borrowers who will join the mainstream credit market. They may also be reflective of the potential job opportunities in the Industry. The report noted that this pattern of defaults raises the hypothesis on whether the market is lagging in creating new job opportunities for the emerging workforce from category II and III academic institutions. This hypotheses is further emphasized with the fact that very low delinquency rates are observed on large ticket size loans of 15 lakhs and above, usually applicable to premiere institutes of professional education. An education loan is drawn down over a period of two to four years depending on the academic course. The payment becomes due only after the borrower completes the course and when a moratorium period of six months to a year has completed. Thus loans disbursed post 2014 has very low absolute delinquency rates.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/small-sized-education-loans-more-prone-to-turning-bad-transunion-cibil/articleshow/60279982.cms

Dated: Aug 30, 2017

- **MFs Tapping Retail Savings On Slashed Bank Savings Deposits Rates (ICRA):** As per ICRA, many lenders cutting interest rates on their savings account deposits, mutual fund houses have been able to sell low-risk products and tap into retail savings. Last month, State Bank of India reduced it's interest rates by 50 basis points to 3.5 per cent for savings deposits of less than Rs. 1 Cr. Subsequently, several other public and private sector banks cut their savings deposits rates by 50 basis points. This is expected to create an opportunity for liquid mutual funds to tap into retail savings, by providing an avenue for parking surplus liquidity while earning a premium over savings rate. Corporate, institutional investors and business houses have been deploying surplus funds in low-risk products such as liquid schemes of mutual funds for a short duration in addition to bank deposits. With the reduction in savings rate, liquid funds, which offer the advantage of liquidity and flexible maturity with easy redemption, are expected to gain prominence as an alternative tool, as retail investors also increase usage of the available benefits of liquid schemes, the report noted. Liquid schemes have reported annualized returns in the range of 6.5-7 per cent over the last one year. The returns have, however, moderated to 6.25-6.5 per cent over the last five months on the back of declined in repo rate. These schemes have provided 2.75-3 per cent higher pre-tax returns on an annualized basis than savings accounts. However, accounting for income tax benefits associated with interest in savings deposits, the difference between annualized returns of liquid funds and savings accounts moderates to 0.87-1.63 per cent for an individual at the highest tax bracket. ICRA noted that the growth in the individual investor base for mutual funds had hitherto driven the growth in equity Assets Under Management (AUM), while the individual investors' interest in the liquid schemes was limited. The cut in savings rate below four per cent may result in the emergence of liquid mutual funds as a direct alternative to savings deposits and lead to greater individual investor participation in this asset class. Though liquid mutual funds, like other mutual funds, are subject to market risk, the shorter maturity profile of the underlying investments of around 1-2 months and the high credit quality of the underlying portfolio, which comprises money market instruments like certificate of deposits, treasury bills, and high rated commercial papers alleviate credit risk to some extent. With the arbitrage between liquid mutual funds and bank deposits likely to continue, the pace of incremental inflows into liquid mutual funds is expected to increase over the near to medium term as some part of the surplus funds are moved away from bank deposits as investors look to improve returns without taking too much risk.

Source: http://economictimes.indiatimes.com/industry/banking/finance/banking/mfs-tapping-retail-savings-on-slashed-bank-savings-deposits-rates-icra/articleshow/60294143.cms

Dated: Aug 30, 2017

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ASSOCHAM Banking E-Bulletin	10th October 2017	Vol.- 29
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