We, at the Reserve Bank of India have come a long way since then as we recognised the significance of customer service and consumer protection in the banking sector early on. The Reserve Bank has remained mindful of the need to empower the common man, the retail customers and the small entities to ensure balance in a bank/ Financial Service Providers’ (FSP) approach to this segment of customers vis-à-vis large and corporate customers. The Reserve Bank, as a multi-service central bank, has been proactively engaged in initiatives to build a strong financial system, expand the reach and access of financial services and ensure protection to customers of banks/FSPs. Since the 1970’s, the Reserve Bank has progressively created, reviewed and updated, an elaborate guidance framework for banks on good customer service, including an internal grievance redressal mechanism with reporting to a Board level Committee.

Let me start with a brief account of the measures taken by the Reserve Bank in the area of consumer protection. Consumer confidence and trust in a well-functioning market for financial services promotes financial stability, growth, efficiency and innovation over the long term. Effective customer protection regulations together with an easily accessible mechanism to resolve disputes between customers and the regulated entities in a timely manner, are essential for promoting consumer confidence. Further, awareness measures for customers on financial matters instills in them knowledge about their rights and responsibilities and helps them to make right financial decisions.

Specifically, in its pursuit of the objective of consumer protection, the Reserve Bank introduced the Banking Ombudsman Scheme on June 14, 1995, for the customers of banks, which has been reviewed periodically so that it retains its relevance as an apex level complaint redressal mechanism for customers of banks. Reserve Bank has also launched the Ombudsman Schemes to include the customers of non-banking financial companies and Pre-paid Payment Instrument (PPI) Providers. These Schemes have evolved over time as apex level complaint redressal mechanisms for customers of entities regulated by the Reserve Bank. I may mention here that these Schemes provide a cost-free and expeditious redressal of complaints relating to deficiency in the services by eligible entities covered under respective Schemes.

The Reserve Bank had created a dedicated Customer Service Department in 2006 to act as the nodal department in the Reserve Bank for grievance redressal of complaints received from the public. The department, has since been renamed as Consumer Education and Protection Department (CEPD), and continues to focus on providing a level playing field between suppliers and consumers of financial services, by easing the imbalances emanating from information asymmetries, inadequate disclosures and unfair treatment. In addition, the Charter of Customer Rights, put in place by the Reserve Bank in December 2014, comprising of broad over-
arching principles to be adopted by banks has been playing an important role in protecting the interests of their customers.

In India, we have a well-defined grievance redressal structure, the first resort on the complaint being the branch itself with proper escalation level in the banks/FSPs. It is expected that the grievances of the customers are redressed in a hassle-free manner at the first point of contact with the Ombudsman being the last resort. An important milestone in strengthening the grievance redressal mechanism available to bank customers was the institutionalization of the Internal Ombudsman (IO) mechanism in 2015 in all public sector banks, select private sector and foreign banks. Based on a review of the framework in September 2018, the coverage of the IO Scheme was extended to all scheduled commercial banks (other than Regional Rural Banks) having 10 or more banking outlets in India. The objective of setting up the mechanism of IO was to ensure that there is undivided attention to resolution of customer complaints in banks and the customers of banks get an independent and auto-review of their grievances which are partially or wholly unaddressed before they approach the Banking Ombudsman (BO). The IO mechanism is expected to strengthen the consumer protection and grievance redressal processes in banks.

In this era of digitalisation, given the increasing use of technology by service providers and their customers, being mindful of occurrence and potential of unauthorized transactions, the Reserve Bank has issued regulatory instructions keeping the interests of the customer in mind. The 'Framework on Limiting the Liability of Customers in Unauthorized Electronic Banking Transactions' issued on July 6, 2017 is a defining development in the wake of risks arising out of rapid digitalisation of payments and money transfer transactions, where there is a judicious balance between ease of use and security of the transactions. The provisions, initially applicable to scheduled commercial banks, have in January 2019, also been extended to cover authorised non-banks that issue PPIs.

In keeping with the rapid evolution in the financial sector, the Reserve Bank has progressively reviewed and updated its instructions and guidelines relating to customer service such as, simplification of know your customer (KYC) procedures, mandating issue of Europay, Mastercard and Visa (EMV) chip/pin cards, transparency in pricing of credit, etc., of which, you are all aware. The current strategy of the Reserve Bank for consumer protection is to create an enabling environment for developing a customer-centric financial system by instituting mechanisms for addressing information asymmetries between the providers and consumers of financial services, enhancing standards of disclosures and ensuring a better alignment of product design vis-à-vis the customer's requirements while providing an efficient and effective grievance redressal mechanism. Through all the changes and developments in the financial world, the Reserve Bank has endeavored to ensure a robust consumer protection mechanism that is visible and credible.

The Role Of The Ombudsman: Before I delve into the role of the Ombudsman, let me say that in this journey of 25 years, several milestones have been achieved by the Ombudsmen and their staff. They have handled complaints with increased volume and complexity. Further, they are now handling complaints under two other Ombudsman Schemes which have been recently added to the redressal framework. The financial sector in general, and banks in particular, are in the midst of a major revolution. A fintech wave is sweeping across financial products, processes and delivery channels. Digitalisation and electronic facilities have transformed the payments system. New types of financial entities
are competing for traditional banking functions, though on a much smaller scale. Technology application and digitalisation have ensured that financial services can be availed anytime, anywhere, at the click of a button. Convenience, cost rationalisation and competition are the hallmarks of the day. However, we are simultaneously being exposed to innumerable known and unknown risks and uncertainties - cyber security breaches, phishing/ vishing frauds, data thefts and misuse, data privacy breaches, malware attacks, etc. While it is known that these risks exist, the garb in which they manifest, when and at what severity, is unknown. With convenience, there are new challenges for customers, entities and regulatory authorities. In this background, the role of the Ombudsman has become challenging; considering the increasing number of complaints, their complexity, as well as ability to deal with the dynamic financial environment. The position of the Ombudsman – so to say is that of the ‘Third Umpire’ in financial dispute resolution - being quasi-judicial, comes with authority and independence. Clearly authority and independence are synonymous with responsibility and objectivity. Accordingly, Ombudsman should remain mindful of their conduct and behaviour, as also the quality of their decisions. They should also be aware of the need to proactively guard against any cognitive bias. Also, while it is a fact that they are technically not assigned an investigative role or investigation tools to carry out their responsibility, Ombudsmen should, at least, adopt an exploratory approach to identify the exact issue or deficiency within their limited mandate of summary disposal. While being disciplined, fair, straightforward and upright, Ombudsmen should also remain accessible to the customers so as not to put to peril the reputation of the Reserve Bank or jeopardies public confidence in the consumer protection mechanism. The responsibility of objective dispute resolution cast upon Ombudsmen, while being significant is not singular. The Ombudsmen must, therefore, refrain from self-limiting their role as that of mere grievance redressal. In fact, Ombudsmen should leverage their vantage position to obtain a fair idea of the business conduct, the strengths and weaknesses of banks. In particular, Ombudsmen should ensure that regulated entities remain responsible and accountable to their customers, and their behavior is consistent with the principles of sound financial conduct as prescribed through various guidelines issued by the Reserve Bank. In order to ensure that consumer awareness reaches to persons in the remote corners of the country, we need to spread awareness through both physical and digital modes. Conducting and participating in the Town Hall activities and other awareness programmes in their jurisdiction should remain an ongoing agenda for Ombudsmen. Since the programmes are conducted outside the Ombudsman Offices, could these be used as opportunities to redress the grievances of the complainants by going near to them? In that case, the Ombudsman can plan well in advance and take on board the complainant and the concerned entities. This will have a positive impact with regard to the accessibility of the Ombudsman. Educating and spreading awareness through digital modes are being undertaken from the Central Office level. While such effort should continue at an enhanced scale, awareness should be spread in local languages for easy understanding and effective communication. The content should be carefully designed to spread financial literacy and awareness regarding customer rights, their obligations, their responsibility in the conduct of financial transactions and safeguarding financial information in a simple way to be easily understood by the common man. This is critical for the success of any programme designed for their protection and welfare.

**Complaint Management System:** In
order to effectively support the Ombudsman framework, the Reserve Bank has started implementing a technology enabled Complaint Management System (CMS) as an upgrade to the currently operational Complaint Tracking System (CTS). The new system will integrate the entire grievance redressal mechanism of the Reserve Bank, which includes the Banking Ombudsman, the Ombudsman for NBFCs, Digital Ombudsman as well the Consumer Education and Protection Cells (CEPCs) at Regional Offices that handle complaints which are not covered by the Ombudsmen Schemes. The new system will also encompass all the regulated entities – banks, NBFCs and PPI providers – as also allow the customers themselves to keep sight of grievances and their redressal. The system will reduce manual process resulting in reduction of Turnaround Time (TAT) and facilitate improved data analytics for use by stakeholders. Further, CMS has an awareness module on the front page containing information materials in audio, video and text formats.

The Role of Banks/FSPs: Let me now turn to the role of banks/FSPs. All financial entities have a special relationship with their customers and thus, it is their duty to recognize issues raised by them in their financial transactions and provide a fair redressal of their customer grievances. Banks/FSPs need to maintain transparency in pricing, service charges, fees, and penalties. Banks/FSPs not only need to make sufficient disclosures on all aspects of their functioning and operations but also need to play a proactive role in educating customers on the products offered, the operational techniques, risks involved, safeguards and redressal options available. Liability for customer losses due to lapses on the part of banks/FSPs should lie with the latter. The Reserve Bank guidance on limiting customer liability in unauthorized electronic banking transactions targets this perspective.

More important than compensation, however, should be on ‘prevention’ through awareness initiatives. This would also help minimize complaint origination at the bank/FSP level and reduce complaint clogging at the Ombudsman level. As I have mentioned earlier, I would like to add that the Reserve Bank has issued guidelines last year strengthening the Internal Ombudsman Scheme in banks. While it is envisaged that the IOs appointed by the banks would be independent in their functioning; it is imperative that banks understand that all complaints which are partially or wholly rejected by the banks must necessarily pass through the desk of IO before final closure. I am sure the banks are taking steps to appoint adequate number of IOs, in line with the volume of complaints received by them as provided in the scheme. A critical aspect of consumer protection that calls for dedicated attention within banks/ FSPs is management engagement. Top and Senior Management in charge of grievance redressal need to take responsibility for the performance and robustness of the redressal framework and engage through deep involvement, close monitoring and oversight of issues involved. They and their staff, need to be driven by ‘true service’ sentiments. Customer service and consumer protection should not be relegated to the sidelines by goals driven by hard targets and sales related incentives for on-boarding customers. Banks/FSPs are, at times, found wanting in these aspects. The rising number of complaints on mis-selling of products by providing incorrect or incomplete information to customers, fraudulent transactions caused due to breach in security protocols, breach of customer privacy, etc., point in this direction. Finally, agility in addressing customer grievances needs to be inculcated at all levels of staff. The turnaround time (TAT) for complaints received within banks/FSPs and those referred to them by the Ombudsmen offices could then


be reduced even further from the existing level of TAT.

**Issues To Address In Consumer Protection And Grievance Redressal:** The G20 High Level Principles on Financial Consumer Protection, adopted by the Organization for Economic Cooperation and Development (OECD) in October 2011, inter alia, mandate that jurisdictions should ensure that consumers have access to adequate complaints handling and redressal mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient. Such mechanisms should not impose unreasonable cost, delays or burdens on consumers. What is the scope for improvement for us vis-à-vis these guidelines? Let me talk about some specific issues in this context.

- **Timeliness in complaint disposal:** Irrespective of the minimum time requirement for a complaint examination with all required inputs/documentation from the involved parties, the time frame for disposal has to be reasonable. In this context, you may be aware that we are currently working on a framework to harmonise the TAT for resolution of customer complaints and charge-backs in all the electronic payment systems. Public expectations are high for early redressal and we too need to evolve a zero-tolerance framework for delays in responses from regulated entities.

- **High level of non-maintainable complaints:** While non-maintainable complaints cannot be wished away, given that 48.9 per cent of the total complaints received during 2017-18 were non-maintainable could point to two things: first, the complainants are not aware about the procedural requirements for filing their complaints; and second, there could perhaps be a tendency to routinely close complaints without adequate examination in some cases. In either case, there is scope for more work from the Ombudsman.

- **Large proportion of rejections:** A sizeable proportion of the maintainable complaints are being rejected, mainly on the ground that the bank was not deficient, and the complaints were not justified. During 2017-18, 33.82 per cent of the maintainable complaints were rejected, which though down from 57.23 per cent in the previous year is still rather high given that the objective of the Scheme is to facilitate resolution of issues through mediation. Further, 8.27 per cent of the total complaints were rejected citing requirement of elaborate documentary and oral evidence. However, in some of the appeal cases, it was observed that a better focused review of the facts could have resulted in a satisfactory outcome for both parties without taking recourse to the appellate mechanism.

- **Communication issues:** Many a time, we deal with persons who may not understand the meaning or the implications of our communication. After all, if the recipient does not comprehend what was intended, there is no purpose served in such cases. Therefore, a concerted attempt should be made to de-jargonise the terms in all our correspondence and awareness materials. It is also essential that soft skills of the dealing staff are developed so that a customer visiting our premises goes out as a satisfied person.

- **Effectiveness of redressal system in banks:** The secular trend in volume of complaints shows significant increase in most offices. As I mentioned earlier, this
could be a positive indicator signifying increasing trust in the functioning of the Ombudsman mechanism. However, a portion of the increase could also be attributed to: a) the growing complexity in products, also enabled by technology, b) greater penetration of financial services covering even consumers with less than desired level of financial literacy, c) lack of monitoring and sensitisation of the dealing staff / Banking Correspondents (BCs) by banks, d) inadequate in-house redressal mechanisms, e) unfair business practices, f) ineffectiveness of the IO and g) not carrying out root cause analysis resulting in recurrence of similar complaints. Effective steps need to be taken to address these issues in banks/FSPs, both at the ground level and at the policy level.

- **Expectations from the Ombudsmen:** I would say that overall, the performance of the Ombudsman offices has been good. Nevertheless, given the enormous challenges in terms of increasing customer awareness, innovations, digitalisation and expectations of stakeholders, we should constantly be on the lookout for areas that need our attention. Let me now talk about some expectations that the Reserve Bank has from the Ombudsmen:-

  - **Quality outcome:** The Ombudsman should meticulously examine complaints and use his/her specialised knowledge of financial services. This would ensure that the consumer is not placed at a disadvantage due to any lack of resources or technical knowledge. Decisions and outcomes should take into account extant regulations, applicable law and good industry practice. For this, the Ombudsman and the supporting contingent of staff members should keep themselves updated with the latest developments in policy and practices.

- **Fairness:** The Ombudsman must exemplify a commitment to procedural fairness. The complainant, the regulated entity against which the complaint has been received and any person/entity directly affected by an Ombudsman’s decision should be given an opportunity to respond before the final decision is taken. I would like to mention here that there were occasions when a case warranted reference back to the BO at the appeal stage as an opportunity was not provided to all parties to present their case.

- **Consistency:** We should aim for consistency of outcome in similar cases. Else, banks will not know how they are expected to handle complaints themselves. There could also be a tendency to game the system by regulated entities in such a scenario. Frequent interactions and sharing of information among the BOs would help in this regard. I am glad to note that a Committee comprising of various stakeholders, viz., Banking Ombudsmen, Department of Payment and Settlement Systems, Department of Banking Regulation, Department of Banking Supervision, Institute for Development and Research in Banking Technology (IDRBT) and National payment Corporation of India (NPCI), has looked into increasing instances of frauds related to digital transactions and recommended certain operational...
procedures to facilitate better resolution and suggested a review of relevant regulatory instructions. The report of Committee may be examined for implementation.

- **Public awareness initiatives:** Unless people are made aware of the ‘what and how’ of the entire ‘grievance redressal’ structure in banks/FSPs and the Reserve Bank and the procedures for lodging complaints especially the grounds of complaints under the various Ombudsmen Schemes, the effectiveness of the grievance redressal mechanism would not be fully realised. In addition to targeted awareness campaigns by the Ombudsmen and those driven through banks and other consumer organisations, feeding information to the communications media with resolved case studies can be explored. The latter will have broader reach and it can also be effective.

- **Use of data:** Though it is not a stated objective of the Schemes, data on complaints should be analysed by the Ombudsmen carefully for providing meaningful insight and support to the regulatory, supervisory and other departments of the Reserve Bank for policy formulation. Further, data in the CMS should be effectively leveraged for data analytics to derive useful information such as commonalities across complaints, causative factors and details of banks/branches/delivery channels/products presenting adverse features. The data can be useful for appropriate policy and operational actions.

- **Quality assurance:** The International standard ISO 10003:2018, a quality management standard for customer satisfaction, gives guidelines for an organisation to plan, design, develop, operate, maintain and improve an effective and efficient dispute resolution process for complaints that have not been resolved by an external organisation. It would be useful to examine our processes vis-à-vis such/similar standards for possible improvements. In this context, I would be keen to learn the outcome of the consumer satisfaction survey on the banking Ombudsman Scheme being commissioned by CEPD. We need to also study the procedures and practices followed in select jurisdictions with well-developed dispute resolution systems for adoption/adaptation by the Reserve Bank.

**Conclusion:** As I conclude, let me also quote John F. Kennedy once again who said: ‘There are risks and costs to a program of action - but they are far less than the long range cost of comfortable inaction’. Living with the status quo, without significant effort to change it, would lead to ineffective and unsuitable long range outcomes. So, let us continue to move with times and resolve to evolve! I am sure that the deliberations during this Conference will seek to arrive at concrete action points for time-bound implementation towards the betterment of consumer protection in the financial sector. I wish you all the very best!
Emerging Challenges to Financial Stability (Shri Shaktikanta Das, Governor, Reserve Bank of India - Monday, August 19, 2019 - at FIBAC 2019 – the Annual Global Banking Conference organised by IBA and FICCI, Mumbai):

It is indeed a matter of great pleasure for me to be here today amidst the business and financial sector leaders. My compliments go to the partners, namely, the Indian Banks’ Association, FICCI and the Boston Consulting Group for spearheading this event. What really gives me the additional motivation to address you is the earnestness with which you have themed this year’s conference, showing your appreciation of the need to prepare ourselves for a new paradigm in banking. The happenings of the past, especially the not so remote ones, have generated an attitude towards the financial sector that ranges from an existential angst to a more positive outlook that hinges on the opportunities beckoning at us. I would like to believe that solutions to a better future lie in unlearning from the practices which led to that angst and in relearning to befit ourselves in the changing financial landscape. Prudent governance and emerging trends in the digital space have the potential to reshape the way we perceive finance. Against these broad underpinnings, let me present my thoughts highlighting emerging challenges to financial stability. This would be the theme of my address to this august gathering. A consensus on the definition of the term financial stability remains elusive even today. Broadly speaking, the core principles governing financial stability can be thought of in terms of a financial system’s ability to facilitate efficient allocation of economic resources; its effectiveness in assessing, pricing, and managing financial risks; and in maintaining its capability to perform these key functions even when affected by external shocks. In other words, as one IMF research paper of 2004 puts it, a financial system is in a range of stability whenever it is capable of facilitating the performance of an economy, and of dissipation of financial imbalances that arise endogenously or as a result of significant adverse and unanticipated events.

The Global Context: The global approach to financial stability changed significantly after the financial crisis of 2008 which made it abundantly clear that financial strength of every financial institution does not add up to systemic stability. The policy makers realised that micro-prudential regulations have to be complemented with systemic risk measures; otherwise systemic stability could be at risk. Ten years after the crisis, the major financial sector reforms, called for by the G20 and co-ordinated by the Bank for International Settlements (BIS) and Financial Stability Board (FSB), are now mostly in place. Large banks are better capitalised, less leveraged and more liquid. The banking system is, therefore, more resilient to economic shocks. Implementation of Too-Big-To-Fail (TBTF) reforms is advancing, including via the establishment of effective resolution regimes for banks. Over-the-counter (OTC) derivatives markets have been made simpler and more transparent. The use of central clearing has increased, and collateralisation is more widespread. Those aspects of non-bank financial intermediation that contributed to the financial crisis have declined. However, the implementation of reforms is not yet complete and remains uneven, especially in the non-banking space. It goes without saying that while dealing with all these issues, country specific situations have to be factored in. Recent developments in the global economy should be seen in this perspective. A weaker than expected growth with signs of slowdown in major economies, as projected by multilateral institutions like the
International Monetary Fund (IMF), is one of the key risks to global financial stability at this juncture. Looming trade-tensions, geo-political risks, and related uncertainties continue to exert pressure on the investment outlook. The latest Global Financial Stability Report (GFSR) by the IMF warns that because of these developments, vulnerabilities in the sovereign, corporate, and non-bank financial sectors are elevated by historical standards in several systemically important countries and regions. Under these circumstances, central banks and other regulators are required to follow the cardinal principle – the regulator never sleeps. Cutting the hyperbole out, what it means is that the regulators and other authorities need to be constantly vigilant and proactively take whatever steps that are necessary. The current state of the global banking sector also presents a story of uncertainty. While bank capitalisation has increased significantly in the post-crisis period primarily due to Basel III reforms, bank profitability has been lacklustre. Both macroeconomic and bank-specific factors have contributed to this phenomenon. Importantly, banks are also facing increasing competition from non-traditional players, such as FinTech and BigTechs, which are taking advantage of digital innovation. These developments have implications for financial stability in Emerging Market Economies (EMEs) like India. It is indeed imperative that banks capitalise on these technological advances and the associated business models. Regulators on their part also need to provide enabling frameworks for these endeavours by banks as well as the non-traditional players.

Headwinds From Banking Sector: In India, the credit market is dominated by the banking sector which plays a key role in financial intermediation in the economy. Soundness of the banking system may have a bearing on the financial stability through various channels - excessive credit growth; maturity mismatches and liquidity issues; high proportion of non-performing loans; and overleveraging, among others. Even if individual institutions are robust, the overall behavior of the financial sector can pose a systemic risk. Hence, monitoring the health of the banking sector is crucial for financial stability. In recent years, as a result of efforts by both the Reserve Bank and the Government, the overhang of stressed assets in the banking system has declined. Going forward, the macro-stress tests for credit risk conducted by the Reserve Bank indicate that under the crisis by introducing changes in the existing institutional architecture to further the cause of financial stability. Recognising the various channels that could lead to systemic instability and the fact that different segments of financial systems are regulated by different regulators, the institutional mechanisms of the Financial Stability Development Council (FSDC), under the Chairmanship of the Finance Minister, and the FSDC sub-committee, under the chairmanship of Governor, Reserve Bank, have been fully functional. The biannual Financial Stability Report (FSR), a report of FSDC sub-committee, analyses the current state of financial system, the extent of interconnectedness among its various segments and possible sources of vulnerabilities that could impact domestic financial stability. The headwinds to financial stability could emanate from various sectors of the economy, namely, (i) the credit market; (ii) financial markets; (iii) external sector; and (iv) payment system. It may emanate from some other sources as well. But today, I will focus on these four aspects.

The Indian Scenario: The pursuit of financial stability has always been a policy priority in India. The twin concerns of monetary and financial stability constitute the core objectives of the Reserve Bank. Similar to the global case, India also responded to the
baseline scenario, the GNPA ratio may decline further by March 2020. Other indicators like the provision coverage ratio (PCR), capital adequacy and return on assets have also improved. I have earlier stressed that the real test of performance, efficiency, internal stability and governance improvement in public sector banks (PSBs) would be their ability to access capital markets rather than looking at the Government as a recapitaliser of first and last resort. Despite certain teething problems, the Insolvency and Bankruptcy Code (IBC) is proving to be a game changer. New norms for resolution of stressed assets framed in June 2019 by the Reserve Bank provide incentives for early resolution, with discretion to lenders on resolution processes. The objective is to ring-fence future build-ups of NPA stress and protect the banking sector. The recent amendments to the IBC should also be able to facilitate faster resolution of stressed assets. As we have seen in the recent past, the build-up of risks among regulated entities due to interconnectedness, exposure concentrations, non-transparent market practices, governance deficiencies, and their contagion effects have repercussions for financial stability. In this regard, the Reserve Bank is keeping a close watch on the interconnectedness of banks and non-banks. The Working Group on Core Investment Companies (CICs) has already started its deliberations and based on its recommendations, the Reserve Bank proposes to carry out necessary changes in the regulatory architecture for CICs. We are also in the process of building a specialized regulatory and supervisory cadre for regulation and supervision of banks and non-banks. Another important issue in this context is the immediate need to strengthen corporate governance structure in banks, which I have elaborated earlier as well. This would include efficient functioning of their boards and board sub-committees, especially audit and risk management committees; robust system for monitoring of performance of MDs/CEOs; and, an effective performance evaluation system to improve the financial and operating parameters of banks. We have already sent our suggestions to the Government for governance reforms in PSBs. Overall, it is important that risk management systems, compliance functions, and internal control mechanisms are strengthened and made more dynamic.

**Non-Banking Sector:** Coming to the NBFC sector, we all know that this sector complements the banking sector and aspires to act as the bridge to provide last mile connectivity. Further, niche NBFCs fulfil the unmet and exclusive credit needs of infrastructure, factoring, leasing and other such activities. Non-traditional and digital players are now entering this space to deliver financial services by way of innovative methods involving digital platform. There is a web of inter-linkages of the NBFC sector with the banking sector, capital market and other financial sector entities. The Reserve Bank keeps a close watch on these inter-linkages to ensure financial stability. With a view to strengthen the sector, maintain stability and avoid regulatory arbitrage, the Reserve Bank and the Government have been proactively taking necessary regulatory and supervisory steps. It is our endeavour to have an optimal level of regulation and supervision so that the NBFC sector is financially resilient and robust. We will not hesitate to take whatever steps are required to maintain financial stability in the short, medium and the long-term. Our objective is to harmonise the liquidity norms between banks and NBFCs, taking into account their unique business models. We are also looking at governance and risk management structures in NBFCs. Recently in May 2019, NBFCs with a size of more than ₹5,000 crores have been advised to appoint a functionally independent Chief Risk Officer (CRO) with clearly specified role and responsibilities. This is expected to bring in professional risk management to the working
of large NBFCs. The move to bring Housing Finance Companies (HFCs) under the regulatory ambit of the Reserve Bank is significant, given their asset-liability profiles. Including HFCs, the size of the NBFC sector constitutes about 25 per cent of combined balance sheet of scheduled commercial banks. The Reserve Bank will take necessary measures to deal with these challenges.

**Headwinds from Financial Markets:** Apart from banks and non-banks, headwinds to financial stability can also originate from financial markets. The increasing frequency and severity of currency and debt crises globally and their ability to cause output loss calls for careful regulation and surveillance of financial markets. Globalization of finance, by amplifying the risk of contagion, and thereby constraining the policy space for effective regulation, has added to the difficulty of this task. As a regulator of various market segments such as money markets, G-sec, forex and interest rate derivatives, the Reserve Bank has followed calibrated, sequenced and careful approach to develop and integrate these markets. The broad objective has been to keep pace with the requirements of fast-growing Indian economy, while being vigilant of potential risks to financial stability. This is done through freeing up market forces by moving away from prescriptive to principle-based regulation, whose core features are simplification of processes, encouraging product innovation, removing regulatory differentiation across participant categories and ensuring protection for retail market participants. Let me give one example. Recently, we have permitted the creation of an electronic platform on which one can buy or sell foreign currency at market rates. This platform is accessible over the internet and the customers can get the best market price without having to approach any individual bank/broker. This is how FinTech can be used to inject greater efficiency to financial markets. As financial markets are opening up, stability concerns are addressed through capital flow control measures (e.g., the overall cap on foreign investment in the debt market) or macro-prudential measures (e.g., cap on total external borrowing as a percentage of GDP). Adoption of global best practices to improve market integrity is another important aspect of regulation. In the last couple of years, the Legal Entity Identifier (LEI) system has been implemented in a phased manner in all financial markets, including derivative markets regulated by the Reserve Bank, as well as for bank loans. We believe transparency of financial markets will greatly improve once the LEI system is used widely. The recent regulations to control market abuse, upgrade the benchmark setting process are all consistent with global standards. A key feature of regulation of derivative markets has been the differential treatment of professional and non-expert clients. Moreover, differential access to derivative markets is being gradually removed. Anyone - resident or non-resident - can now access these markets for hedging on similar terms. In fact, alignment of incentives for non-residents to gradually move to the domestic market is an important regulatory aim. As you would be aware, the Task Force on Offshore Rupee Markets with Mrs. Usha Thorat, former Deputy Governor as chairperson, has made important recommendations that are likely to improve participation of non-residents in the onshore market. Our aim is to make the onshore market more accessible and attract higher transaction volumes.

**External Headwinds and Domestic Financial Stability:** With increased trade and financial linkages with rest of the world, India has become more susceptible to the vagaries of heightened global economic uncertainties. While trade channels take some time to show a tangible impact of global shocks, it is the financial and confidence channels that quickly
transmit the global shocks as was evident in the
case of India during the taper tantrum period
in mid-2013. In fact with negative and low
interest rates in major economies, net private
capital flows to EMEs in the form of direct and
portfolio investments have nearly doubled
in the post-crisis period. However, with high
monetary policy uncertainties in advanced
economies, these flows have proved to be
fluid and therefore posed considerable risk to
EMEs. Just a year back, EMEs like India faced
financial market turbulence due to a faster-
than-expected tightening in monetary policies
in advanced economies. Many EMEs including
India witnessed portfolio capital outflows,
exerting downward pressure on domestic
currencies. In recent years, India’s external
sector has benefited from a sustainable level
of current account deficit, largely financed by
robust foreign direct investment inflows and
flexible exchange rate policy. Improvement in
other vulnerability indicators during 2018-19
such as fall in external debt to GDP ratio (from
20.1 per cent at end-March 2018 to 19.7 per cent
at end-March 2019) and debt service ratio (from
7.5 per cent at end-March 2018 to 6.4 per cent at
end-March 2019) also augur well for mitigating
the spillover of external headwinds on the
domestic financial markets. Notwithstanding
strong macroeconomic parameters, constantly
changing dynamics of external headwinds
warrant policy preparedness in order to
minimize spillovers of global shocks and
preserve financial stability. As a supplementary
safeguard, the Reserve Bank has signed a
bilateral currency swap agreement with the
Bank of Japan for US$ 75 billion with the
objective of bringing greater stability in foreign
exchange and capital markets in the country.

Payment System and Financial Stability:
A number of innovations have taken place
in retail payments which have reshaped
payment processes and changed the retail
payments landscape. India’s payment systems
are considered to be efficient, safe and secure.
While acknowledging this and without trying
to be complacent, the Reserve Bank has made
an attempt to benchmark domestic payment
systems and practices with those prevalent
in prominent countries worldwide. The
assessment of various indicators including
regulation and oversight suggests that India
has a strong and robust regulatory structure.
However, new entrants into the financial
services space, including FinTech and BigTech
firms are altering the universe of financial
service providers. A range of new lending
platforms, including P2P and marketplace
lenders, have appeared in jurisdictions around
the world. Highlighting some of the related
challenges and opportunities, the recent Annual
Economic Report of the Bank for International
Settlements (BIS) states that such firms can
collect large amount of data at nearly zero costs,
which can be used to better assess the riskiness
of borrowers and could reduce the need for
collateral to assure repayment. These new
players have also made inroads in the provision
of payment services, remittance services and
cross-border payments. Moreover, they have
the potential to grow very quickly and become
large and systemically important financial
institutions, raising concerns over financial
stability and consumer protection.

26. Faced with such profound changes, the
policy makers’ dilemma is more than walking the
middle path between innovation and regulation.
The public policy approach here needs to be
more comprehensive and holistic, taking into
account issues such as financial regulation,
competition policy and data privacy regulation.
Coordination among various authorities – such
as financial regulators, competition authorities
and data protection supervisors – becomes
critical at this juncture. The Reserve Bank's
Vision-2021 for Payment and Settlement
Systems in India visualises empowering every Indian with access to a bouquet of e-payment options that is safe, secure, convenient, quick and affordable. The Committee on Deepening of Digital Payments under the chairmanship of Shri Nandan Nilekani has suggested to increase the volume of digital payments by 10 times in the next three years which can be facilitated by initiatives such as removing transaction charges on digital payments, simplifying KYC processes, and reducing KYC costs for banks. The Reserve Bank is taking necessary action based on the committee's recommendations.

**Concluding Observations:** At the end, I would like to highlight the significance of consumer protection which is not only important from the point of view of access but also from a broader context of stakeholders’ trust. The trust of the consumers that the services are fairly priced, the trust of the investors that the stakeholders are acting in their best collective interest, the trust of the regulators that the audited financial statements do represent a fair and reasonable assessment of the activities of a firm – all have intangible but substantial contribution to national savings and financial stability. Post Lehman developments in the US financial markets are a prime and sobering example of what happens when investor trust evaporates. In fact, consumer protection should be seen as a key pivot around which all regulatory and supervisory initiatives are required to evolve. Let me conclude by saying that much progress has been made in maintaining a stable financial system. However, as we have seen, the financial landscape is continuously changing, and new challenges are emerging. The Reserve Bank is continuously harnessing the regulatory and supervisory framework to better adapt to the evolving scenario. The IBA, its members and other stakeholders should, therefore, be active partners in ensuring that such a process evolves successfully.

**Trade War: Is it a prelude to Deglobalisation? Shri B.P Kanungo, Deputy Governor - August 10, 2019 - Forex Association of India Conference, Singapore:-**

I am delighted to be here today and am grateful to the FAI and the organizers of this conference for inviting me to speak to this gathering. I am also happy to be in Singapore, a country which truly epitomizes all that can be called achievements of globalization, and a country with which India had and continues to have multifaceted engagement covering cultural, ethnic and economic spheres. FAI, a body of forex market professionals who intermediate between the supply and demand for foreign currency and act as ‘price givers’ to the rest of the economy has been active in promoting transparency, professionalism and ethical conduct in the forex market since 1979. I commend them for the role they have played and hope that they will continue to do so in future with utmost efficiency and fairness. The forex market is unique in several ways. A foreign currency is essentially a commodity outside its jurisdiction and therefore has attributes of an asset. But the exchange rate, the price of the foreign currency normalized to the home currency is an important macroeconomic variable that ought to be determined by economic fundamentals and influences behavior of economic agents. Principally because of this twin nature, the exchange rate exhibits great volatility and decouples from its value indicated by the economic fundamentals that calls for
policy response. I must add that the only thing next to extreme volatility that disorients a forex trader is a situation of very low volatility!

It is ironical that amidst several disruptive factors, the volatility in the global foreign exchange markets has been quite low in recent times. In fact, the JPMorgan Global FX volatility Index has been at its lowest since 2014. Market participants have seen this as a lull before the storm and have recounted past episodes when such a trough was followed by a sharp rise in the US Dollar. Despite the 25-basis-point rate cut announced by the US Federal Reserve, the US Dollar rose sharply, probably anticipating more accommodating measures in the future. If anything, this underscores uncertainty. The global economic scenario is not very encouraging, though there is no room for pessimism yet. The IMF continues to revise the global growth projections for 2019 downward though the outlook for 2020 is more positive. The growth in the developed countries remains sluggish and the emerging economies including China and India, the dominant contributors to global growth in recent years, appear to be facing a challenge. Another era of accommodative monetary policy regime seems to be round the corner as evident from synchronized rate cut by several Central Banks.

Global trade tensions between the two largest economies are a dominant theme of discourse today. As of now, there does not appear to be any possibility of quick resolution of the tension, nor does it seem to escalate and get out of hand rapidly in near future. Whatever may be the rational and economic logic behind the competitive protectionism through tariff barriers, it is certainly contributing to the global economic slowdown. The exit of Britain from the European Union, the so-called Brexit also is shrouded in uncertainty and it is recognized that a no-deal Brexit will surely be a disruptive factor. There are also risks emanating from geopolitical tensions in the Gulf and elsewhere that can adversely affect the sentiments.

Delicately poised as the global economy is at this juncture, much of which, as IMF Chief Economist Gita Gopinath says, is self-inflicted, it is entirely premature to think of delocalization. Globalization is an irreversible process and has been progressing for millennia. It has progressed rapidly beyond expectation in recent times because of quantum advancements in communication and technology. All aspects of human existence including economies, markets, social interactions, education and so on have become intertwined. True, the process of globalization has brought problems and discontent in its wake, but wisdom lies in addressing them rather than disbanding the process.

Free Trade has been one of the main planks of globalization. It has been generally held that free trade amongst nations enhances welfare. The underpinning logic is the same as that in case of free market economics: specialization, comparative advantage and productivity gains. Just as in case of free market economics, there are factors that affect the gains from trade. Besides, there has always been an asymmetric approach to free exports versus free imports. While every country favour exports (except when the terms of trades are deteriorating) because it contributes to domestic employment and growth, there is an abhorrence for imports because the country loses employment, growth and foreign exchange. This brings in deterrent measures like tariff and when one hears talk about optimum tariff, it simply means optimum for the welfare of the country concerned not for the global welfare as a whole. And if all the trading countries impose retaliatory tariffs, it becomes a negative-sum game affecting global welfare and welfare of individual nations to a varied extent.
Ordinarily, the exchange rate is supposed to play some kind of an equilibrating role in addressing the current account deficit, subject of course to several preconditions. A country with trade surplus should experience appreciation of its currency making its exports more expensive and imports cheaper and vice versa for a country with trade deficit. The success of this mechanism depends on to what extent the exchange rates are allowed to be determined by the market forces without intervention of national authorities. It is not surprising that allegations of currency manipulation were fairly common in the run up to the recent trade tension.

The increasing globalization of trade, manufacturing, services, supply chain, capital movement, etc. has created a web of complex interdependence. Moreover, the externalities of national economic policies have also become substantially magnified. While the national governments and policy makers are supposed to act in interest of their respective constituencies, the collateral effect of their action on the rest of the world can be significant. The need for coordinated action amongst the leaders of the larger nations is urgent. It must be borne in mind that such coordinated action did contribute to contain the global financial crisis.

Speaking recently, Governor Das drew attention to the US Treasury's monitoring of countries as currency manipulators since 2015 in which India figured for some time till 2018. He further pointed out that the charter of the IMF has elaborate provisions to bind its member countries not to manipulate their currencies so as to gain unfair comparative advantage in trade and it is best that the issues relating to any alleged currency manipulation are best dealt with in a multilateral framework than bilateral attempts to correct a wrong. The same logic applies to trade in goods and services and other areas of discord as well. That was the purpose behind the erstwhile GATT, now WTO. The current trade tensions are best sorted out multilaterally through cooperation lest as Paul Krugman tweeted some time back, “In the long run the world would be poorer and in the short run there would be immense disruption.”

The Indian forex markets have been fairly stable in recent months. As you know, the Reserve Bank is mandated to maintain orderly conditions in the foreign exchange market. Its intervention in the forex market is solely directed at curbing sudden turbulences not backed by the economic fundamentals. As has been said repeatedly, market operations are not intended to achieve any target exchange rate or band of rates. It must be pointed out that the exchange rate dynamics in India for more than a decade has been driven by capital flows rather than current account balances. As an aside, India has mostly run a current account deficit, notwithstanding a bilateral trade surplus with the US, marginally more than USD 20 billion during 2018. Though long-term flows related to FDI and long-term debt have been fairly stable keeping in tandem with the economic fundamentals, the portfolio flows have their own dynamics depending as much on attractiveness of returns of Indian assets as the global factors determining their risk appetite. Gyrations in the forex market in these circumstances leave no option other than market intervention to restore orderliness in the market. One also need to bear in mind that India's forex reserves are borrowed reserves and not built out of export surplus. Inasmuch as it provides a bulwark against sudden flow reversals, it enhances the country's ability to cope with the fall out and indeed, contributes to global stability as well.

The policy regime is also oriented to providing adequate instruments of hedging to all resident economic agents who have exposure to a foreign currency as well as all non-residents who have a Rupee exposure. The onshore markets are fairly deep and liquid but needs further strengthening.
There is a wide menu of hedging instruments available and further expansion would be in keeping with understanding of their risk implication. In recent times, global institutions and investors have shown a healthy appetite for Rupee denominated assets, which while ensuring flow of foreign exchange protects the Indian issuers from exchange risk. This trend needs to be given further policy nudge.

In fine, I would like to say that though there are discouraging portents for the global economy and uncertainties arising from trade tensions and geopolitical developments, I am optimistic that coordinated policy response and dispute resolution within a multilateral framework will see us through the day. I will also take this opportunity to highlight two other important issues. First, the issue of transparent and fair pricing of foreign exchange transactions which have been brought to our notice by various category of users. The problem of getting fair prices was especially acute for MSMEs and small businesses who were not allowed to access the FX trading platforms of individual banks. In order to address this issue, RBI decided to develop, through CCIL, a web-based platform wherein such participants could place their purchase/sale orders directly. The platform, is accessible to users from early August 2019 through an internet-based application, allows bid/offers from retail clients and Authorised Dealer banks to be matched anonymously and automatically, thereby allowing complete transparency to the users about the levels of their trades. Banks will have to declare and recover their processing charges separately leading to competition amongst banks for customer business. I urge banks to make the platform popular among retail and small business houses/MSMEs.

Second, the Global Forex Code developed by the BIS as a common set of guidance for the proper functioning of the FX market. It comprises a common set of principles (55 in total with 6 leading principles) aimed at restoring trust and allowing greater confidence in the forex market and its functioning after various scandals (like LIBOR fixing scandal, etc.) eroded confidence in the markets. The Code provides the corporate/intermediary with an opportunity to review/improve its internal FX operations and align them to global standards. It provides a positive signal to its clients, investors, counterparties and the wider market of the corporate’s commitment to follow good practices while dealing in the FX market. In India, all banks, barring one, and several non-bank participants have signed the Statement of Commitment (SoC) to the Code. Though the adoption of the code is voluntary, I urge all the non-bank participants present here to study the Code, examine their processes and, thereafter, sign the SoC to the Global Code. I wish your deliberations all success.
• Finance Ministry-PSU Banks Meet To Review NPAs:

Finance ministry will hold a meeting with heads of all state-run lenders on Friday to review the bad loan situation, resolution through the Bankruptcy Code and other issues related to service tax. In a missive sent to all public sector banks, the finance ministry said that the review meeting may be addressed by finance minister Nirmala Sitharaman. The meeting will also be attended by revenue and corporate affairs secretaries, the directive, reviewed by ET, said. Banks filing a petition with Delhi High Court against the demand of Rs 38,000 crore as service tax is also likely to be discussed in the meeting. The government raised demand on ground that banks asked customers to maintain minimum average balance (MAB) in bank accounts as a consideration for banking facilities provided free. A two-judge bench deferred the matter for further hearing on November 14. The finance ministry had earlier noted that as a result of transparent recognition of stressed assets and subsequent initiatives of the government recognition, resolution, recapitalization and reforms – bad loans for PSBs have declined by Rs 89,189 crore to Rs 8.06 lakh crore as on March 2019. Non-Performing Assets of PSBs had increased to Rs 8.95 lakh crore in 2018 from Rs 2.79 lakh crore in March 2015.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/finance-ministry-psu-banks-meet-to-review-npas/articleshow/70474622.cms

Dated: Aug01, 2019

• Banks Go Slow On Lending To Auto Dealers

Several banks have expressed concern over a build-up of stress in their loans to automobile dealers and may tread cautiously, even slowing down on disbursements as the auto industry grapples with its worst sales slowdown in over a decade. Banking industry experts estimate the total outstanding loans to automobile dealers to be in the range of 70,000-80,000 crore. State Bank of India this week issued a circular to its branches, advising them to tighten collateral norms while lending to auto dealers. Non-state lenders Axis Bank and Kotak Mahindra Bank said they were going slow on lending to dealers. “The auto sector has been going through a slowdown for the past six to nine months. It has been difficult for the dealers to sell off inventory and in this context, we issued advisories to our branches to ensure no new unnecessary exposures are taken,” PK Gupta, the managing director for retail and digital banking at SBI, told ET. “We had a meeting with stakeholders from the industry on Monday and we conveyed the same message to them,” he said, while adding: “The endeavour of our bank is to support the auto industry during these times of stress.” The nation’s top lender issued the circular following pressure from a leading automaker to increase funding to its dealers, after one of its latest models saw strong bookings, said people in the know. Automobile sales have fallen every month for almost a year now, except for October when the numbers were nearly flat. In June, nine out of India’s 11 main passenger vehicle makers reported a double-digit
In the first quarter of fiscal 2019, the sales volume is estimated to have dropped 15-20%. “The market is stressed and many dealers who have recently entered this space are finding it difficult to manage their repayment obligations. Every lender has been cautious and SBI is also doing the same thing in ensuring prudence,” said a top dealer requesting anonymity. Axis Bank and Kotak Mahindra Bank stated their position during their post-earning conferences with analysts and journalists. “All our key dealerships have an inside out view about what is going right and what is going wrong. And, if there is one thing which we are very clear about, that when we feel that there is a risk of losing money, we just make sure that we first protect our money,” Uday Kotak, the managing director of Kotak Mahindra Bank, said at the time. “And, therefore, we have actually had a negative situation in our (auto) dealer finance business in terms of the growth of the book.” He said some new banks were “pretty reckless” in the past two years in lending to automobile dealers. Axis Bank, which declared its quarterly results on Tuesday, said issues surrounding the sales slowdown in the auto sector had reflected in its SME loan book. “We are not pushing some of the dealer finance portfolios due to the well-articulated stress in the auto sector. Additionally, we are also recalibrating some of the exposures and that has reflected in our slowing SME growth as well,” said executive director Rajiv Anand. Weak demand for new vehicles has increased the inventory with dealers. For passenger vehicles, inventory levels had peaked to more than 60 days earlier this year from the norms of around 30 days, as per data from the Federation of Automobile Dealers Associations. The levels have now reduced to an average of 30-35 days, after manufacturers cut production. Close to 300 dealerships have shut shop in the past 18 months due to the slowdown, according to the federation. “The mismatch in loan tenors and cash flow from inventory sales has prompted most the lenders to tread with caution on the dealer financing portfolios,” said an analyst, speaking on the condition of anonymity. “The banks now want to disburse these loans with high collateral, which will ensure high loan-to-value ratios to make up for the fall in creditworthiness.”

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/banks-go-slow-on-lending-to-auto-dealers/articleshow/70475021.cms
Dated: Aug 01, 2019

- **RBI Allows Bank Of China To Offer Regular Banking Services In India:**

The Reserve Bank of India (RBI) on Thursday allowed Bank of China to offer regular banking services in the country. All commercial banks, like SBI, HDFC Bank, Punjab National Bank and ICICI Bank, are in the Second Schedule. Banks falling under this schedule have to adhere to the norms of the RBI. “We advise that the ‘Bank of China Limited’ has been included in the Second Schedule to the Reserve Bank of India Act, 1934...,” the central bank said. In another notification, the RBI said ‘Jana Small Finance Bank Limited’ too has been included in the Second Schedule. Further, the name of ‘The Royal Bank of Scotland plc’ has been changed to ‘NatWest Markets Plc’ in the Second Schedule. Meanwhile, ‘National Australia Bank’ has ceased to be a banking company within the meaning of the Banking Regulation Act, the RBI said and added that it has been excluded from the Second Schedule.

Dated: Aug 01, 2019
Lens On Mack Star Dealings, Evergreening Allegation Against HDIL And Yes Bank:

A foreign investor in the Indian property market has alleged in a complaint to Reserve Bank of India (RBI) that Yes Bank and realty group HDIL have moved funds to evergreen loans. According to the offshore investor Ocean Deity Investment Holdings — an erstwhile arm of DE Shaw and the 78% owner in an Indian joint venture (JV) where HDIL entities hold minority stake the loans from Yes Bank to the JV were not authorized by the majority shareholder and the money was transferred to bank accounts of other HDIL group companies, almost simultaneously, to repay loans taken by them from Yes Bank, sources aware of the matter told ET. Mack Star Marketing Pvt Ltd is the JV company and owner of a well known commercial property in Mumbai's Andheri East area. “We have filed a complaint with RBI. We are not in a position to comment on the matter,” said Sumit Saha, authorised representative of Ocean Deity. Denying the allegations, Sarang Wadhawan, MD of HDIL, said HDIL or its subsidiaries are not aware of any entity named Ocean Deity Investments or its dealings with Mack Star. “We would like to state that Mack Star Marketing had purchased development rights from HDIL through certain investments by DE Shaw Composite Investments (Mauritius) and the transaction was limited to such sale of development rights with HDIL,” said Wadhawan. It is learnt that DE Shaw Composite Investments (Mauritius) was renamed Ocean Deity investment Holdings following a change in the ownership in the Mauritius entity. Ocean Deity is understood to have drawn RBI’s attention to a series of fund transfers between March 2014 and March 2016 which showed that soon after Yes Bank disbursed a loan tranche to Mack Star, almost the entire amount was simultaneously transferred to accounts maintained by HDIL group companies with Yes Bank. Sources said that Ocean Deity told RBI that while Rs 140 crore was lent and transferred through such transactions between 2014 and 2016, there was a similar pattern of transaction, involving Rs 60 crore in multiple instalments, in 2011 and 2012. There were cases, the foreign investor alleged, where money moved to the loan escrow account maintained by Privilege Power & Infrastructure Pvt Ltd (an HDIL group company) with Yes Bank, and the current account of Sapphire Land Development (another company linked to HDIL) with the same private lender. Responding to ET's queries, Wadhawan said that “all transactions related to Mack Star Marketing were conducted by the company itself and HDIL had no relation in any borrowings or debt raised by Mack Star. Mack Star’s relationship with its lenders was conducted by its owners DE Shaw Composite, Wadhawan added. Yes Bank did not respond to ET’s email till the time of going to press. A bank official said the bank would not comment on client specific issues. Ocean Deity has pointed out to RBI that as per the Articles of Association of the JV, the company was barred from borrowing without the approval of the majority shareholder. The offshore investor has alleged that the primary objective was ever-greening of loans to certain HDIL entities and it was orchestrated by Yes Bank. A banker unconnected to the matter said that in all likelihood Yes Bank had done some paper work and maintained records which it could only share with RBI.

Dated: Aug 02, 2019
• **SBI Expected To Report Net Profit Of Rs. 4,106 Crore For April-June:**

India's largest lender State Bank of India (SBI) is expected to report a net profit of Rs. 4,106 crore in the three months to June 2019 compared to a net loss of Rs. 4,875 crore in the same period last year, according to an average of estimates of 16 analysts polled by Bloomberg. In the June quarter of FY19, the bank had reported a net loss for the third consecutive quarter after setting aside funds to cover losses on its bond portfolio and increased gratuity. Analysts at Kotak Institutional Equities expect slippages at 1.6% of its loans as recognition of large accounts is complete, while gross bad loans could decline led by higher write-offs. The bank's provisions would be high due to ageing of non-performing assets (NPAs), it said. The brokerage also expects a loan growth of 12% y-o-y and net interest margin (NIM) sequentially unchanged at 2.9%. “Non-interest income growth will be higher due to higher treasury income and income from written-off loans,” said Kotak Institutional Equities. Meanwhile, brokerage PrabhudasLilladher expects SBI to report a net interest income difference between interest earned and expended of Rs. 23,905 crore, up 9.7% from the June quarter of FY19. It also sees the bank's pre-provisioning operating profit (PPOP) at Rs. 14,533 crore, down 14% year-on-year. “SBI to see sharp earnings recovery and while we build slippages of Rs. 8,000-8,200 crore and credit cost of 200 bps (annualized) which should improve provision coverage ratio (PCR) to 70% but also help in higher write-off,” said a report by PrabhudasLilladher.

Dated: Aug 02, 2019*

• **RBI Imposes Fine Of Rs 11 Crore On Seven Public Sector Banks:**

The Reserve bank of India has imposed fines on seven public sector banks for a combined total Rs 11 crore owing to noncompliance of six separate adherence norms to be followed while opening and monitoring new accounts and reporting funds on balance sheet, the Reserve Bank said in a statement issued on Friday. The seven banks fined by Reserve Bank include Bank of Baroda, Bank of India, Indian Overseas Bank and Union Bank of India with an imposition of monetary penalty of Rs 1.5 crore each, Bank of Maharashtra and Allahabad Bank with Rs 2 crore each and a Rs 1 crore fine on Oriental Bank of Commerce by the apex regulators. “A scrutiny was carried out by RBI in the accounts of the companies of a Group and it was observed that the banks had failed to comply with various provisions,” said RBI in the statement. “Based on the findings of the scrutiny, notices were issued to the banks advising them to show cause as to why penalty should not be imposed for non-compliance with the directions.” The noncompliance ranges from RBI's provisions on “Code of Conduct for Opening and Operating Current Accounts”, “Opening of Current Accounts by Banks - Need for Discipline”, “Discounting/Rediscounting of Bills by Banks”, “Reserve Bank of India (Frauds classification and reporting by commercial banks and select FIs) directions 2016”, “End Use of Funds – Monitoring” and “Deposits on Balance Sheet Date, the central bank said. The RBI in a separate notice also declared a Rs 1 crore fine on Corporation Bank for a cybersecurity related noncompliance. “A report of cybersecurity incident submitted by the bank about fraudulent transactions using a cancelled debit card revealed that the bank had failed to comply with the directions.
issued by RBI on Cyber Security Framework in Banks and Frauds Classification and Reporting by commercial banks and select FIs,” Reserve Bank said in the statement. 

Dated: Aug 02, 2019

• RBI Bans NBFCs From Charging Loan Foreclosure Penalties:

The Reserve Bank on Friday barred non-banking finance companies from charging pre-payment penalties or foreclosure charges from individual borrowers. “NBFCs shall not charge foreclosure charges/pre-payment penalties on any floating rate term loans sanctioned for purposes other than business to individual borrowers, with or without co-obligants,” the central bank said in a notification, without specifying from when the new rules will be effective. The central bank said the relevant rules governing the same have been updated to reflect the change. Foreclosure charges are part of the fee income for any lender and adds to its bottomline. These direction covers both deposit-taking and non-deposit-taking NBFCs which are considered systemically important ones. It can be noted that in May 2014, the RBI had barred commercial banks from charging such fees or penalties from individual borrowers with mortgage loans. But banks are free to charge same on non-secured loans like personal loans. The notification, which will take away an income line for these players, comes at a time when NBFCs are struggling with a host of issues, starting with liquidity crisis. The regulator has blamed asset liability mismatch for the troubles.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-bans-nbfcs-from-charging-loan-foreclosure-penalties/articleshow/70502170.cms
Dated: Aug 02, 2019

• RBI Updates Fit And Proper Criteria For PSU Bank Directors:

Members of parliament, state legislature or local bodies like municipal corporations cannot be members of the board of public sector banks. Also, partners of chartered accountant firms which are currently engaged as a statutory central auditors at any public sector banks, cannot join the board of these bank, Reserve Bank of India said in an updated circular on fit and proper criteria in public sector banks. Candidates for the post of board members in public sector banks should also not be a member of the board of any rival banks, or the RBI or any financial institution, insurance company or non-financial holding company of any other bank which includes, commercial banks, State Bank of India, co-operative bank or a regional rural bank. People connected with hire purchase, financing, money lending, investment, leasing and other para banking activities will not be considered for appointment as directors on the board of a public sector bank. “However, investors of such entities would not be disqualified for appointment as directors if they do not enjoy any managerial control in them,” RBI clarified. Also, no person can be elected or re-elected on the board of a public sector bank if he or she has served as a director in the past on the board of any bank, financial institution, insurance company under any category for six years whether continuously or intermittently. “The candidate should not be engaging in the business of stock broking,” RBI said. Candidates between the age of 35 to 67 years on the cutoff date for the submission of nominations for election with graduate as a minimum education
qualification will be considered, RBI said. An elected director can hold office for three years and shall be eligible for re-election for a total period of six years either served continuously or intermittently. “The candidate should neither have any business connection including legal or advisory services with the concerned bank nor should be engaged in activities which might result in a conflict of business interests with the bank,” RBI said.

Dated: Aug 02, 2019

• Tamil Nadu Bank Under Lens Over Farm Loans To CCD Staff:

A Tamil Nadu-based private bank has come under the scanner of taxmen for having issued farm loans worth Rs 145 crore to a few top executives of the Café Coffee Day (CCD) group companies on the basis of bogus purchase letters. Investigations by income tax sleuths into the financial affairs of deceased CCD founder V G Siddhartha show that bank officials issued loans without assessing the creditworthiness of the employees and directors of the CCD group. The loans, which have been obtained in the name of farmers, were reportedly diverted to different companies run by Siddhartha, I-T sources said. In fact, one of the top executives appointed to the CCD board after Siddhartha’s death had also obtained such a loan. “These can be labelled as dubious loans. There seems to be a clear nexus between the bank, which is looking at increasing its footprint across the country, and a few CCD executives who wanted to better the money-flow,” I-T sources said. Explaining the modus operandi, I-T sources said that the CCD officials had applied for loans from the bank stating that they were coffee planters from Chikkamagalur district in Karnataka. They allegedly produced bogus purchase guarantee letters issued in the name of CCD group and, based on it, the bank approved loans without completing due diligence. The money is suspected to have been used for servicing other debts, I-T sources said. Other points of investigation include the hawala transactions between one of Siddhartha’s private companies with a Singapore citizen of Bengaluru origin. Coffee Day Enterprises, the listed company of the group, had said on Wednesday that it is investigating the transactions which Siddhartha in his purported letter to the board had said: “team, auditors and senior management are totally unaware of.” The board of the company has also appointed Cyril AmarchandMangaldas as its legal counsel. Four private holding companies of VG Siddhartha, which held over 17% stake in the listed Coffee Day Enterprises, had a personal debt of Rs 3,537 crore, out of which over Rs 2,500 crore was borrowed since 2017, TOI reported on Thursday.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/tamil-nadu-bank-under-lens-over-farm-loans-to-ccd-staff/articleshow/70493081.cms
Dated: Aug 02, 2019

• Raiding RBI Reserves Shows Govt’s ‘Desperation’, Says Ex-Governor Shri Subbarao:

Raiding the reserves of the central bank only illustrates the “desperation” of a government, and we should be very wary and careful while determining the value of the excess reserves, warned former governor D Subbarao on Friday. The career bureaucrat-turned-central banker said he would be “ok” if a sovereign bond issue in foreign currency is done once just to test
the waters, but cautioned against using the instrument regularly. “A government trying to raid the balance sheet of a central bank anywhere in the world is not a good thing. It shows that the government is desperate, he said, speaking at a CFA Society India event here. In defence of his opposition to the desperate attempts to carve out the reserves, the former governor, who was at the helm during the 2008 global meltdown, said the risks undertaken by the RBI are different from other central banks and it will not be entirely beneficial to draw from international practices. The comments from Subbarao come at a time when the Bimal Jalan committee is reported to be in the final stages of finalising its report on identifying the appropriate capital for the RBI and how to transfer the excess to the government. Acknowledging that transfer of the excess reserves was one of the key causes of tension between the RBI and Government in the run up to Governor Urjit Patel’s resignation, Subbarao seemed to suggest that there is little use of the transfers from a fund inflow perspective. He said international investors look at balance sheets of both the government and also its central bank, and that the same applies to distress time lending by the IMF as well. “... I do want to say that we should be very careful, very wary of what decision is ultimately taken on the transfer of the surplus reserves, he said. Many analysts have pegged the so called excess reserves at around Rs. 9 trillion, or around 27 per cent of its core capital, and say the Jalan panel may suggest a staggered payout in the range of Rs. 1.5 trillion to Rs. 3 trillion over a period of three years. He advocated maintaining the autonomy of the RBI as essential because of its horizons extend far beyond the immediate objective of elections which a government can be guided by. Meanwhile, in a departure from his predecessor Y V Reddy and successor Raghuram Rajan, Subbarao said it will be “ok” for the government to test the waters with an overseas bond issue. “I would say that as a one-time measure, just to test the waters, its ok, he said. However, the former governor, who now teaches at a Singaporean university, made his apprehensions on the instrument from a long-term perspective clear. But the fear and concern that strike me is that this will become a thin end of the wedge and once we see that it has become very successful, we might keep on doing it and get into pressure situations needlessly, he said. The government can just print its way out of issues on domestic debt, which will not be possible in case of external debt, he warned. There are significant benefits, there are considerable costs of such a move, Subbarao said. The benefits include signalling a confidence to the global investors about opening up the economy which is generally perceived to be cautious on opening up, he said. On the issue of transmission, where banks are being blamed for taking longer to pass on RBIs rate calls to their borrowers, Subbarao said the central banks worries are coming largely from the need to establish its credibility. Subbarao said the move to inflation targeting has so far been proved to be good, but added that the system will only be tested in times or pressure like stagflation which he had to face.


Dated: Aug 02, 2019
• **Punjab & Sind Bank Declares NPA Account Fairdeal Supplies As Fraud:**

State-owned Punjab & Sind Bank on Friday said it has declared NPA account Fairdeal Supplies Ltd as a fraud and has reported the matter to the Reserve Bank of India. “It is informed that an NPA (non-performing account) account, Fairdeal Supplies Ltd with outstanding dues of Rs 40.49 crore has been declared as fraud and reported to RBI as per regulatory requirement,” it said in a regulatory filing. The bank is in the process of filing of a complaint or FIR with the Central Bureau of Investigation, it said.


• **RBI Updates Fit & Proper Norms For PSB Boards:**

Members of Parliament, state legislatures, or local bodies such as municipal corporations cannot be on the boards of public sector banks. Also, partners of chartered accountancy firms engaged as statutory central auditors at any public sector bank cannot join the boards of these banks, Reserve Bank of India (RBI) said in an updated circular on fit and proper criteria in state-run lenders. Candidates for the post of board members in public sector banks should also not be a member of the board of any rival bank, or the RBI or any financial institution, insurance company or nonfinancial holding company of any other bank that includes commercial banks, State Bank of India, a co-operative bank, or a regional rural bank. People connected with hire-purchase, financing, money lending, investment, leasing and other para banking activities will not be considered for appointment as directors on the board of a public sector bank. “However, investors of such entities would not be disqualified for appointment as directors if they do not enjoy any managerial control in them,” RBI said. Also, no person can be elected or re-elected on the board of a public sector bank if he or she has served as a director in the past on the board of any bank, financial institution, or insurance company under any category for six years — continuously or intermittently. “The candidate should not be engaging in the business of stock broking,” RBI said. Candidates between 35 and 67 years on the cut-off date for the submission of nominations for election, with graduation as the minimum educational qualification, will be considered, RBI said. An elected director can hold office for three years and shall be eligible for re-election for a total period of six years, either served continuously or intermittently. “The candidate should neither have any business connection, including legal or advisory services with the concerned bank, nor be engaged in activities that might result in a conflict of business interests with the bank,” RBI said.

*Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-updates-fit-proper-norms-for-psb-boards/articleshow/70506913.cms Dated: Aug 03, 2019*

• **Consumption Slump Temporary, HDFC Chairman Shri Parekh:**

HDFC’s 46% rise in June quarter profit reflected the mortgage lender’s resilience amid broader growth challenges, said chairman Deepak Parekh, who added however that he expects a turnaround in the economy. Standalone profit at one of India’s biggest housing finance companies (HFCs) rose to Rs 3,203 crore from the year earlier, boosted by a one-time gain of Rs 1,894.21 crore from the sale of a stake in
Gruh Finance. “Evidently, there has been a distinct slowown in the economy which was reflected in a lower GDP growth of 6.8% in FY19,” Parekh told shareholders at the annual general meeting. “While there has been an across-the-board slowdown in consumption, given the inherent demand and low penetration levels, I do believe this is temporary in nature.” HDFC had access to diversified borrowing sources besides being bolstered by demand for affordable housing, Parekh said. “The demand for affordable housing has not slowed,” he said. “This July we received 55,000 new applications as against 56,000 last year. Our growth will come from this segment,” Parekh added. He said HDFC could source funding from overseas, among other areas. “HDFC’s advantage has been its access to diversified resources. We tapped into new lenders through external commercial borrowings and masala bonds,” Parekh said. The stock rose 1.75% to Rs 2,124.10 at the Friday close on the BSE. The nonbanking financial companies (NBFC) sector has been gripped by a liquidity squeeze following the default by Infrastructure Leasing & Financial Services (IL&FS) last September. Fundraising has become difficult as investor sentiment has turned negative. “The challenge today is risk averseness,” Parekh said. “Banks are reluctant to lend and there has been a flight to safety where a select, few, high rated NBFCs and HFCs have access to funding, while for several others, access to credit has been choked,” said Parekh. HDFC is carrying surplus liquidity to tide over any difficulties it may face. “Given the environment on liquidity, the corporation as a matter of prudence has been carrying considerably higher level of liquidity since 2018,” the financier said. The company has received board approval to raise Rs 45,000 crore via secured redeemable nonconvertible debentures in one or more tranches over the fiscal year. Net interest income (NII) rose to Rs 2,739 crore from Rs 2,562 crore in the same quarter last year. Net interest margin remained unchanged at 3.3%. The loan book grew 11.2% to Rs 4.16 lakh crore. Gross nonperforming (NPAs) assets swelled 1.3% against 1.22% in the year earlier. Bad-loan provisions doubled in the quarter to Rs 890 crore from Rs 398 crore. Parekh had said in HDFC’s annual report that the economy was facing challenges since September last year, attributing this to risk-averse lending practices, slowing consumption demand and general tightness in liquidity. “Reflecting back, we were often asked in the first half of the financial year why we were not growing aggressively as others in certain segments of the commercial real estate market,” Parekh had written. “We held our ground by consciously staying away from funding what we perceived were riskier asset.” Mortgage companies such as Dewan Housing Finance Ltd that typically hold longer-maturity assets have been struggling to manage loan repayments due to the higher costs of accessing short-term liquidity. During the quarter, HDFC entered into an agreement with Apollo Munich for acquiring 51.2% of its health insurance business. The deal, valued at Rs1,347 crore, is awaiting regulatory approval and is set to take the merged entity to a valuation of Rs 10,800 crore.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/consumption-slump-temporary-hdfc-chairman-parekh/articleshow/70506742.cms
Dated: Aug 03, 2019

- **Indian Bankers Worry DSP’s Legal Action Will Delay Rescue Of DHFL:**

The resolution plan of one of India’s biggest shadow banking firms, Dewan Housing Finance Ltd (DHFL), may be
delayed as its creditor DSP Mutual Fund has initiated legal proceedings against it, two banking sources told Reuters. DHFL ran into trouble late last year as cracks in the shadow banking system in India began to emerge after the near collapse of another financial firm, IL&FS, stoking fears of a broader contagion. In July, DHFL said it was “undergoing substantial financial stress” and may not survive as a going concern. Its auditors then raised several red flags around its financials, deepening worries that a crisis in the shadow banking sector was far from over. DHFL owes nearly 1 trillion rupees ($14.35 billion) of debt to its creditors including banks, mutual funds and insurance companies. The firm has submitted a revival plan to the banks which is being evaluated. DSP Mutual Fund said on Friday it had initiated legal action against DHFL after it failed to pay 50% of the 1.5 billion rupees it owed to the asset management firm. Two banking sources with direct knowledge said they now feared that DSP’s action would push other creditors to take similar legal action against DHFL to recover their dues. “After one firm files a case, there are other parties as well that end up taking legal recourse, and we are worried about that now,” said one of the bankers, who is part of the restructuring process. DSP in a statement on Friday said its legal action was aimed at recovering its remaining dues and it had not done anything to disturb DHFL’s rescue plans. DHFL did not immediately reply to an email seeking comment. Banks have signed an inter-creditor agreement to come up with a solution to tackle DHFL’s debt. Mutual funds that are not part of that agreement can take legal action to recover their dues. However, Indian central bank rules say that three-quarters of lenders by value of outstanding credit and 60% by number must agree on a restructuring plan so that it can be cleared, making it critical for mutual funds to be onboard with the plan. “The focus should have been on resolving DHFL’s crisis urgently, but this legal action will only end up adding to the problem and stalling the process,” said the second source.

Dated: Aug 03, 2019

**Bandhan Bank To Add 187 Branches In FY20:**

Bandhan Bank would open 187 new branches by the end of the current financial year, taking the total number to 1,187, a top official said on Saturday. The private lender would also open 340 doorstep service centres by 2019-20, MD and CEO Chandra Sekhar Ghosh said. Speaking to reporters at the opening of the bank’s 1,000th branch here, Ghosh said its board has approved 200 new branches in the current fiscal, out of which 13 had already been opened. Bandhan Bank has 3,014 doorsteps Speaking to reporters at the opening of the bank’s 1,000th branch here, Ghosh said its board has approved 200 new branches in the current fiscal, out of which 13 had already been opened. Regarding paring promoters’ stake to 40 per cent from 82 per cent as directed by the RBI, he said that post the merger of Gruh with the bank awaiting NCLT approval promoters’ holding will reduce to 61 per cent. The bank had already made 100 per cent provisioning for its exposure in troubled IL&FS, amounting to Rs 385 crore.

Dated: Aug 03, 2019
• **RBI Imposes Rs 50 Lakh Fine On SBI:**

State Bank of India (SBI) on Saturday said the Reserve Bank has imposed a penalty of Rs 50 lakh on it for non-compliance relating to reporting of frauds. The RBI in exercise of the powers conferred under various sections of the Banking Regulations Act, has imposed a penalty of Rs 50 lakh on the bank for non-compliance with its directions relating to reporting of frauds, SBI said in a regulatory filing.

*Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-imposes-rs-50-lakh-fine-on-sbi/articleshow/70513392.cms*

*Dated: Aug 03, 2019*

• **Public Sector Banks Can’t Push People Of Choice On Their Boards:**

Public Sector Banks (PSBs) will not be able to manoeuvre people of their choice into board positions with the Reserve Bank of India (RBI) tightening fit and proper guidelines for the position of elected directors. The central bank on Friday came out with new master directions on fit and proper guidelines for elected directors on the board of PSBs. Elected representatives such as Members of Parliament, or State Legislature or Municipal Corporation or local bodies cannot be shareholder representatives on bank boards. The rules explicitly bar board members of the RBI or any bank, financial institution, insurance company or bank holding company. The new rule also requires that the candidate should not have served on the board of a bank, financial institution or insurance company for six years. Individuals who are connected with hire purchasing, financing, money lending, investment, leasing or para banking activity are also not considered eligible, as also are stock brokers. Shareholders of PSU banks are required to elect two to three directors, depending on the level of public shareholding. Although there are directors by investors, these board members have typically been chartered accountants or other professionals with business contacts with the banks. To keep out political appointees, RBI requires all PSBs to have a Nomination and Remuneration Committee (NRC) with at least three Non-Executive Directors. Of these, half should be independent and should include at least one member from the risk management committee of the board to determine the ‘fit and proper’ status of candidates for the board.

*Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/psbs-cant-push-people-of-choice-on-their-boards/articleshow/70508750.cms*

*Dated: Aug 03, 2019*

• **How A Shadow Banking Crisis Sent India’s Autos Sector Into A Tailspin:**

Sudhir Gharpure and his sales team sat chatting at a big Maruti Suzuki dealership on the outskirts of Mumbai some two hours after its doors were opened on a recent Saturday morning - not a single customer was in sight. “There used to be close to 15-20 bookings each day, but now we’re down to 3-5 on good days,” said Gharpure, the general manager at the dealership. Gharpure's experience is not an isolated one. Across India dealerships are being pushed out of business and the Indian auto sector is going through its biggest slump in nearly two decades. Passenger vehicle sales fell for eight straight months until June, and in May sales dropped 20.55% - the sharpest recorded fall in 18 years. Preliminary data indicates passenger vehicle sales may have plunged as much as 30 percent in July. The slump in India, along with a simultaneous slide in Chinese auto sales, is a blow for automakers wrestling with higher costs driven by more
stringent emission norms and a push to develop electric cars. Unlike in China, where the plunge in cars sales has been caused largely by new emissions rules, India has seen a mix of factors that have combined to erode demand for automobiles. Prime Minister Narendra Modi’s 2016 ban on high-value bank notes, higher tax rates under a new goods and services tax regime, a boom of ride-sharing firms such as Uber and Ola, and a weak rural economy have all played a role. But many dealers and automakers agree it is a deepening liquidity crunch among India’s shadow banks that has been the biggest single factor in an auto sales collapse, which some fear may lead to more than a million job losses. Non-banking finance companies (NBFCs), or shadow banks, have dramatically slashed lending following the collapse of one of the biggest, IL&FS, in late 2018. IL&FS, or Infrastructure Leasing & Financial Services Ltd, was a behemoth in shadow banking and its defaults and unravelling, amid fraud allegations, have dried up funding for rivals and led to a surge in their borrowing costs. Non-bank or shadow banking firms generate credit outside traditional lenders, by means such as collective investment vehicles, broker-dealers or funds that invest in bonds and money markets. In India, NBFCs have in recent years helped fund nearly 55-60% of commercial vehicles both new and used, 30% of passenger cars and nearly 65% of the two-wheelers in the country, according to rating agency ICRA. To aggravate matters, the stress in the autos market has also prompted banks to begin trimming their exposure to the sector. “The car doesn’t sell, it’s the finance that sells,” said R. Vijayaraghavan, a senior marketing consultant at the same Mumbai dealership. “Today the finance is not selling, so the cars are not selling.” Some 286 dealerships have shut down in the last 18 months across India as rising costs for inventory management have made businesses unviable, according to the Federation of Automobile Dealers Association (FADA), a lobby group of auto dealers. “The slowdown in the (NBFC) sector has dragged down vehicle sales growth,” said A.M. Karthik, financial sector head at ICRA. “Now the auto slowdown is becoming more visible as the liquidity squeeze continues.” Automakers including Maruti Suzuki, Tata Motors, and Mahindra & Mahindra are feeling the heat and have either cut production or temporarily closed plants to correct mounting stocks. According to FADA data, passenger vehicle inventories now stand at 50-60 days up from around 45 days earlier, while those of two-wheelers are even higher at 80-90 days. For commercial vehicles, inventory levels range between 45 and 50 days. “We are asking dealers to maintain an inventory of 21 days, which is almost half of the current levels,” said Ashish Kale, president of FADA. At least four dealers from different brands said, however, there was little scope to reduce inventories as automakers were pushing them to buy stock despite there being no demand even with heavy discounting and other sops on offer. While 70-75% of car sales were previously financed in-house by NBFC or bank agents sitting at a dealership, that has fallen to about 50%, say dealers, as buyers struggle to qualify under more stringent lending norms put in place by lenders that are under pressure to shore up their books. Moreover, as many NBFCs typically lent to less creditworthy clients, banks are reticent to rush in to fill the void, as they themselves struggle to cope with an existing pile of about $150 billion in bad loans. “The banking sector is certainly one of the factors that has affected the growth of the industry,” said R.C. Bhargava, chair of Maruti Suzuki, noting interest rates for car
buyers have gone up in the last 12 months despite the central bank cutting rates. EARLY RECOVERY UNLIKELY With the autos sector employing more than 35 million people directly and indirectly, and contributing more than 7% to India’s GDP and accounting for 49% of its manufacturing GDP, the fallout from the autos slump is huge and presents a big challenge to Prime Minister Narendra Modi's government as it begins its second term. The entire supply chain, from vehicle manufacturers to component makers, are bleeding amid the slump. “I've been making my payments for the last 30 years and the lenders know me,” said Adarsh Gupta, the director of finance at Autolite (India), a component manufacturing firm. “But even a two-day delay has people crying that I will default. “I too want to pay, but because of the fall in cashflows I'm facing short-term issues and because of that it's difficult to get more financing. This is the vicious cycle we are in.”

Still, automakers are hopeful of a recovery in the months ahead, helped by the September-December festive season that traditionally sees a surge in consumer spending. “One can only wish that things improve sooner rather than later. With festive demand starting to seep through, we should start seeing a gradual improvement in sales,” said P.B. Balaji, group CFO at Tata Motors. Analysts are more sceptical though, and say without vehicle financing becoming cheaper and easier the chances for that are low. With no silver lining in sight, analysts fear bad debts could mount in the auto sector, forcing banks to further reduce their exposure. “We see market prices and sales coming down so there may be issues,” said a top official at the Indian Banks’ Association. “We could see a spillover in terms of bad loans for the overall sector, but we are going to wait and watch.”

Dealers said they were hopeful of tiding over the current downturn as the broader growth story for India remains intact, but there could be a lot more pain before a recovery kicks in. “The future is going to be multi-brand car showrooms,” said marketing consultant Vijayaraghavan. “That is the only way for dealerships to survive going forward as overhead costs need to be shared.”

Dated: Aug 04, 2019

• CASA Accounts See A Sharp Drop As Savers Chase Higher Rates:

Indian private-sector lenders have seen a sharp drop in the low-cost current and savings accounts (CASA) in the June quarter, with savers moving to term deposits to park surplus funds at higher rates of return. Bankers said the drop in CASA also points to lower consumption demand as people prefer saving for the future instead of spending now. While some banks held on to their CASA balances, many have seen a huge drop year-on-year. ICICI Bank's CASA ratio fell a steep 8 percentage points to 43% of total deposits in June 2019 versus 51% in June 2018. Axis Bank's CASA has fallen to 41% from 47% a year ago, while Yes Bank's CASA is down to 30% from 35%. Even HDFC Bank has seen a drop in CASA to 40% from 42% a year ago. Among the large private sector banks, Kotak Mahindra is the only one that has seen an uptick — to 50.7% from 50.3%. IndusInd saw minimal change, at 43.1% CASA versus 43.4% a year ago. Large public sector banks have done well, by contrast. Bank of Baroda, State Bank of India and Punjab National Bank held on to their CASA ratios. Canara Bank's CASA dropped to 29% from 32%. Bank of India has bucked the trend, as its CASA has increased slightly to 43% from 42% a year ago.
“Savings balance is an outcome of financial transactions and spending people generally do, which is indicative of sentiments and consumer confidence,” said Pralay Mondal, head-retail, Axis Bank. “With a slight slowdown in consumption leading to lesser discretionary spending, the mid-segment customer may be keeping lesser balance. High net worth customers also have started exploring alternative investment avenues for some time now for higher returns, which augurs well for the economy in the long run.” At the beginning of this month, ET reported term deposits have risen in comparison with debt mutual funds because of the safety they offer, with IL&FS defaults causing sharp falls in the values of some mutual fund units. Annualised deposit growth was at 10.3% in June up from 8.1% since the September 2018 debt crisis. “The fact that some fixed deposits were offering 7% as late as June while savings bank rates were 3.5-4% also pulled some people away from savings bank deposits,” said Jaimin Bhatt, group CFO at Kotak Mahindra Bank. Led by fixed deposits, total bank deposits rose Rs 11.8 lakh crore in the nine months between September 2018 and June 2019. “As interest rates are coming down after RBI’s rate cut, people are looking to lock in their savings in higher rates. Banks like SBI have also cut deposit rates. I expect this to continue for another quarter as the move toward higher yields continues,” said Siddharth Purohit, analyst at SMC Global Securities. Bankers said it is too early to say whether this trend away from savings is likely to persist. “It’s too early to call out the exact trends and reasons for CASA slowdown and we have to wait and watch and see if there is a structural change, or this trend is only a transient journey,” said Mondal from Axis Bank.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/casa-accounts-see-a-sharp-drop-as-savers-chase-higher-rates/articleshow/70528897.cms

Dated: Aug 05, 2019

- **At 7.3%, Retail Loan Growth Slips To 5-Year Low In First Half Of 2019:**

The last time a slower retail credit disbursement by banks in the first half of a year was seen between January and June 2014 when a credit growth of 6.4% was registered. Banks have disbursed retail loans at the slowest rate in five years in the first half of 2019, latest data from RBI showed, amidst growing concerns of sluggish consumption demand and rising unemployment pegging down the country’s economic growth. As per RBI’s monthly sectoral deployment of credit data analysed by ET, the retail personal credit disbursement growth in the first half of 2019 between January and June was 7.3%. The credit growth in the first half 2018 was 7.7% while for the same period in 2017 it was 8.6%. The loan growth in the first halves of 2016 and 2015 was at 8.1% and 8.5%, respectively. The last time a slower retail credit disbursement by banks in the first half of a year was seen between January and June 2014 when a credit growth of 6.4% was registered; the same period when BJP-led NDA formed its first government with a record mandate. The slowing growth in retail loans comes despite 75 bps of repo rate cut in three consecutive monetary policies by the Reserve Bank of India since governor Shaktikanta Das took over reigns in December last year. The rate cuts were made to boost consumption in the economy in the hope that cheaper borrowing rates would transmit to lower-priced loans to end consumers. The central bank is widely expected to announce a further 25-bps cut in their upcoming policy on Wednesday. One basis point is equal to 0.01 percentage point. Sales slowdown in sectors such as
auto and signs of preliminary stress building up in several retail loan portfolios such as personal loans and credit cards may have caused for disbursements to have slowed down, as per bankers that ET spoke with. “We have seen a slight uptick in delinquencies in certain personal loan segments,” a top private sector banker had told ET after their June quarter results. “While these upticks are not particularly alarming, our lending to segments such as auto and unsecured personal loans have been more prudential and based on stricter risk assessments.” Typically, personal retail loans include home loans, auto loans, loans through credit card, personal loans and mortgage loans given to individuals. In June 2019, the total outstanding advances to the personal retail sector stood at Rs 22.5 lakh crore, RBI data showed. Home loans made for more than half of these advances at Rs 11.8 lakh crore while small-ticket personal loans, mostly unsecured, made for the next big chunk at Rs 6.2 lakh crore or 27.7% of the overall retail advances. Vehicle loans, a portfolio which has seen declining disbursement growth since a sales slowdown hit the automobile sector in September, made up for 8.8% of these loans at Rs 2 lakh crore while credit card loans stood at Rs 94,000 crore. “Evidently, there has been a distinct slowdown in the economy which was reflected in a lower GDP growth of 6.8% in FY19,” Deepak Parekh, chairman HDFC, told shareholders at the annual general meeting on Friday speaking of a slowing economy affecting consumption growth. However, the industry veteran believed the slowdown to be temporary. “While there has been an across-the-board slowdown in consumption, given the inherent demand and low penetration levels, I do believe this is temporary in nature.” Early signs of stress in these portfolios emanating from a sluggish consumption demand may be showing now as credit bureau data also suggests a build up of risk. Portfolios at Risk (PAR) in May or those asset classes which may see delinquency in the next 90-180 days stood at 0.91%, about 8 bps higher than in March, as per data sourced from credit bureau CRIF High Mark. For auto loans, the portfolio at risk has risen 20 bps in the 30-90 days period between March and May. The PAR 90-180 days for outstanding credit card loans stood at 1.82%, 21 bps higher than the same period last year, CRIF data showed.

Dated: Aug 05, 2019

• **Banks At Times ‘Found Wanting’**
  **Prioritizing Customer Protection Over Sales Target, RBI Deputy Governor Shri MK Jain:**

The top brass of Indian banks and financial institutions should take active responsibility in ensuring the proper functioning of their internal ombudsman to tackle the rise in consumer banking frauds, according to a top regulator. “Top and Senior Management in charge of grievance redressal need to take responsibility for the performance and robustness of the redressal framework and engage through deep involvement, close monitoring and oversight of issues involved,” said RBI deputy governor M K Jain, while delivering a speech at the Annual Conference of Banking Ombudsman in June to an industry gathering. A copy of the speech was uploaded on the central bank’s website on Monday. “Customer service and consumer protection should not be relegated to the sidelines by goals driven by hard targets and sales related incentives for on-boarding customers. Banks and FSPs (Financial Service Providers) are, at times,
found wanting in these aspects.” The rise in number of complaints on mis-selling of products and fraudulent transactions could partly be blamed on banks and FIs neglecting the interests of customer over achieving sales targets and other such incentives, the regulator said. Furthermore, Jain said that banks also needed to implement analytics on the customer complaints data to see better results on both the banks’ internal ombudsman and RBI’s own policy interventions. The central bank had last month launched an online platform for faster redressal and tracking of consumer grievances called the Complaint Management System (CMS). “Though it is not a stated objective of the Schemes, data on complaints should be analyzed by the Ombudsmen carefully for providing meaningful insight and support to the regulatory, supervisory and other departments of RBI for policy formulation,” said Jain.


Dated: Aug 05, 2019

• Bankers Agree To Take Steps To Review Lending Rate Transmission, Says FinMin:

The finance ministry on Monday said banks have agreed to take steps to review lending rates as they have not “commensurately” transmitted to borrowers benefits of reduction in the policy rate by the RBI. Since December 2018, monetary policy has been eased substantially by the Reserve Bank of India (RBI) with policy rates being cut by 75 basis points (bps) and policy outlook being changed to ‘accommodative’. “Banks need to commensurately transmit rate cut benefit in lending. In the meeting, banks agreed to take steps as per RBI guidelines to review their lending rates,” said an official release. The release was issued after a meeting between Finance Minister Nirmala Sitharaman and heads of Public Sector Banks (PSBs) as well as private lenders, including HDFC Bank, ICICI Bank, Axis Bank, Kotak Mahindra Bank and Citi Bank. Financial Services Secretary Rajiv Kumar said a range of issues connecting to credit growth, Micro, Small and Medium and Enterprises (MSMEs), automobiles, timely transmission of rate cuts, digitization, service tax-related issues were discussed at length. “The idea is to take stock of everything and spur the credit growth, especially in the automobile sector, in the agriculture sector, in the MSMEs and also look at the ‘co-origination’ with the NBFCs and HFCs, where the banks have the credit availability... so that they can join hands together and lending reach to the last mile,” Kumar said. Sitharaman talked about issues related to the increase in public shareholding in listed companies from 25 per cent to 30 per cent as well as levy of surcharge on super riches. She said market regulator Sebi has already started consultations with various stakeholders about the increase in public shareholding to 30 per cent in listed entities. “Sebi has started the exercise of hearing various stakeholders and is having its own consultations. From the ministry side, we have not initiated anything either way,” Sitharaman said. About levy of surcharge on foreign portfolio investors (FPIs) as part of tax on super riches announced in the Budget 2019-20, she said, “I did mention that there are FPIs who are going to tell me something about it and I am quite open to hearing out what they want to tell me. And towards that, I have not just left it at that.” Union Minister for Finance and Corporate Affairs, Nirmala Sitharaman addressing a press conference after the meeting with the heads of public and private sector banks, in
New Delhi on Monday. She said Department of Economic Affairs (DEA) Secretary Atanu Chakraborty has clearly culled out time to meet with the FPIs so that the ministry can have their views. “So, he (Chakraborty) will also directly talk with FPI representatives. The secretary will be holding a consultation with them, walk up to them, talk to them and make us understand or hear them out what they have to say. Maybe, some view from the government will come that day,” Sitharaman said. Touching upon the issue of homebuyers discussed in the meeting, the minister said the Supreme Court has already come out with its verdict in case of one of the big realty firms, however, in case of another, the ministry had consultations with various stakeholders. “On another (developer), we have had a group of ministers meeting with all the respective authorities whether it was the Noida Authority, or the Yamuna Expressway Authority together with representatives of Uttar Pradesh, with the Union Minister of Urban Development Hardip Singh Puri and the concerned secretaries – banking, revenue and company affairs,” she said. Sitharaman said there have been extensive meetings and the government hopes to move forward in that direction. On funding to MSME and non-banking financial company (NBFC) sectors, she said the meeting discussed about ways to improve lending to these businesses. The minister said there is a complex matrix of governance-related, solvency-related and liquidity-related issues. RBI Deputy Governor N S Vishwanathan, who also attended the meeting, said the banking system has adequate and durable liquidity currently. As part of its meeting with various stakeholders in the economy, the finance minister will hold a meeting with MSME representatives and minister Nitin Gadkari on Tuesday, followed by discussion with automobile and its component manufactures on Wednesday.

The next is with the industries (on Thursday) and the next day on Friday, there will be a meeting with the markets (stakeholders) and on Sunday, a meeting with homebuyers and real estate participants is to take place. “These are all the sectors where we need to give a push and which are important for the economic growth. We will continue to have these interactive sessions till Sunday and then after that, we will compile all of them based upon the feedback we receive,” Kumar said. Among others, bankers also raised the issue of service tax that they have been facing. The revenue secretary and the Central Board of Indirect Tax and Customs’ chairman has taken note of the issue and these will be examined by the government at the appropriate time, the official statement said. Kumar said the matter of digitisation was also discussed in the meeting. “In the review, banks committed to review charges on digital payments with a view to making them cheaper for customers vis-a-vis cash payments. They also committed to expanding services available through mobile and internet banking and offer services on these digital platforms in regional languages as well,” said the statement.

Source: https://www.livemint.com/industry/banking/bankers-agree-to-take-steps-to-review-lending-rate-transmission-says-fnmin-1565021062578.html
Dated: Aug 05, 2019

• **FM Meets Bankers, Assures Help In Resolving Industry’s Concerns:**

Finance minister Nirmala Sitharaman said on Monday that the government plans to take policy measures “fairly quickly” to address the challenges plaguing the industry. She said also that the government is open to hearing out the grievances of foreign portfolio investors (FPIs). The minister was speaking to reporters after meeting chief executives of private and state-run banks as...
she kicked off a series of meetings planned with various industry heads. She met the heads of State Bank of India (SBI), ICICI Bank, Axis Bank, Punjab National Bank and Kotak Mahindra Bank among others. The meeting also discussed the credit requirements of non-bank lenders, automobile industry and micro, small and medium enterprises (MSMEs), and the transmission of interest rate cuts to the economy. “Behind the series of meetings is to hear them out and fairly quickly after that come out with something that will help those sectors...We are getting inputs from various sectors and trying to respond so that the confidence of those sectors is being restored,” Sitharaman said. Over the next few days, the minister will meet representatives from several sectors FPIs, automakers, industry associations, financial markets, MSMEs, industry associations and real estate to listen to their challenges. This is the first time the finance minister is meeting top executives in the second term of the National Democratic Alliance government, in a way acknowledging the ongoing economic slowdown and the government’s willingness to take inputs from businesses. Sitharaman said the economic affairs secretary will soon hold talks with FPIs on their problems. There has been a massive outflow of overseas funds following the Union budget announcement to impose higher surcharge on some of these investors. Bankers who attended the meeting sought the government’s intervention on tax notices asking lenders to pay service tax and Goods and Services Tax (GST) on minimum balance accounts. Banks will soon respond to the notices, Sitharaman said, adding Jan Dhan accounts and basic deposit and savings accounts do not attract any charges. On the decision to borrow overseas in foreign currency, Sitharaman said she will not speculate on the number of tranches and the finance ministry has done nothing in this regard, besides the announcement in the budget, owing to commitments in the ongoing Parliament session. During the March quarter, India’s economy grew at 5.8%, the slowest in five years. Growth in 2018-19 was 6.8%, down from 7.2% a year ago. Besides the slowdown in fresh private investments, subdued demand and stress at non-banking financial companies (NBFCs) are affecting growth. In signs of a persistent slowdown, India’s automobile makers are finding it hard to sell vehicles, and NBFCs and MSMEs are struggling to access credit. Overall credit growth continues to be at 12%, which is marginally lower than 13.3% at the end of March, the finance ministry said in a statement after the meeting. “At the same time, with turnaround in the NPA cycle, high provision cover of over 75%, and record recovery, banks’ balance sheet are healthier than before. Banks are now, therefore, in position to step up lending,” said a finance ministry statement. MoS for finance Anurag Thakur, finance secretary Rajiv Kumar, economic affairs secretary Atanu Chakraborty, expenditure secretary G.C. Murmu, revenue secretary Ajay Bhushan Pandey, RBI deputy governor NS Vishwanathan, were among those who attended the meeting.

Dated: Aug 05, 2019

- **Warburg Pincus Pledges Entire Stake In IDFC First Bank To Raise Funds:**

  Global private equity major Warburg Pincus has pledged its entire 9.86% shareholding in private lender IDFC First Bank Ltd to raise funds, two people aware of the development said, requesting anonymity. Warburg holds 471.73 million shares in IDFC First Bank through an entity called Cloverdell
Investment Ltd. Based on Monday's closing price of Rs. 41.1 per share, the Warburg stake is worth around Rs. 1,940 crore. Warburg pledged the shares with Citigroup, Barclays and Standard Chartered to raise funds, said the first person. “The funds mobilized by Warburg through the loans will be used to return capital to limited partners (LPs, investor in a private equity fund) of the funds managed by Warburg. PE firms generally do this to provide liquidity to LPs in a fund which is nearing its life, as well as for other reasons,” he added. According to the second person, Warburg has mobilized around $150 million by pledging the entire IDFC First stake. Warburg Pincus, Barclays, Standard Chartered and Citi declined comment to Mint's queries. In 2012, Warbug had acquired a 42.73% stake in Capital First (before the merger with IDFC Bank), formerly Future Capital Holdings Ltd, from Pantaloons Fashion and Retail Ltd. Subsequently, in October that year, it had bought an additional 24.43% stake through an open offer. In May 2017, Warburg sold a 25% stake in Capital First through an open market transaction to several global and domestic investors, including Singapore's sovereign wealth fund GIC Pte. Ltd. In December 2018, IDFC Bank and Capital First merged to form a combined entity with assets of Rs. 88,000 crore under management and a distribution network of 194 branches. As on 30 June, the bank had total assets of Rs. 1.12 trillion under management with retail loans comprising 40% of the asset base. The bank's gross non-performing assets (NPA) stood at 2.66%, while capital adequacy ratio was at 14%. It had 279 branches as on 30 June. India has been a major investment destination for Warburg one of the earliest global PE firms to invest in the country. In recent times, it has made several large investments across insurance, microfinance, logistics, education financing and real estate. In March, Warburg Pincus had announced the acquisition of an 80% stake in education financing company Avanse Financial Services Ltd from Wadhawan Global Capital group. Warburg's other recent investments in India include leading a $65 million round in logistics startup Rivigo, a $200 million commitment to set up a shopping mall platform with realtor Runwal Group and a plan to jointly invest Rs. 3,000 crore with Lemon Tree Hotels to develop student housing and co-living spaces.

Dated: Aug 06, 2019

- Shri Uday Kotak Moots New Legislation To Reform Public Sector Banking:

After the abrogation of Article 370, banker Uday Kotak Monday called upon the government to bring in more legislative changes to lower state ownership in public sector banks below 50 per cent and also re-introduction of the FRDI Bill. He proposed changes to public sector banking, including reducing the number of state-run lenders to five, getting government stakes down in some of them to under-50 per cent, or merging a few of them or even public private partnerships in banking. Under the public private partnership model, the state ownership has to be capped at 26 or 33 per cent, with the private sector partner owning the rest, he said, adding this will create huge value for the government. “We must think about a courageous move of looking at state-owned banks. It would be differentiated, bold and would be a big step in transformation of finance,” he said, delivering the 25th Lalit Doshi memorial lecture this evening. The banker also suggested re-introduction of the controversial Financial Resolution and
Deposit Insurance (FRDI) Bill to tackle the woes plaguing the financial sector. “Time has come for a strong FRDI Bill along with a strong resolution mechanism for handling stress and mortality in the financial sector,” he said, speaking of the Bill which was withdrawn because of a ‘bail-in’ clause. Kotak also pitched for a stronger Financial Sector Development Council for inter-regulatory issues, proposing that the finance minister should be placed as the arbitrary. “Time has come for a very strong FSDC under the finance minister that ensures that issues of regulation between regulators are handled in a seamless manner,” he said. Kotak, who has been tasked to manage IL&FS, said what we are witnessing at present in the financial sector are the “after-effects of serious indigestion which India”. “It was very easy to get an accounting opinion, it was easier to get a rating...there was mad competition among rating agencies,” he said in comments, that come weeks after reports of how rating agency professionals were compromised and the heads of two of them were asked to leave the organizations-Icra and Care Ratings—last month. Ahead of the RBI policy review, Kotak pitched very strongly for a narrowing the real interest rates, which is the differential between the inflation & lending rates. He said ideally, the rate needs to be 1.5 per cent as against the up to 3 per cent at present, adding inflation is also under control. Kotak also reiterated the case for small savings rate to be brought down to have better transmission. To a question on crony capitalism continuing, he said this aspect is “deeply disturbing” and the problems come to fore with every instance of frauds being discovered. Kotak said contract enforcement in the country needs to be improved, pointing out that the World Bank has also found our record wanting on that front. He said we should go ahead with the budgetary proposal for foreign borrowing but cautioned against excessive reliance on the same. He also rued the dominance of cash, such that currency is back to the pre-demonetisation levels and asked for a shift back to less-cash system. Welcoming the government decision to abolish Article 370 which accords special status to J&K earlier in the day, he said, “this is a momentous day in our history.”


Dated: Aug 06, 2019

- **RBI Policy, India’s Central Bank Faces Calls To Do More Than Just One Rate Cut:**

India’s central bank is poised to deliver its fourth successive quarter-point interest rate cut on Wednesday, amid calls from investors and the government for further easing as the slowdown gripping the economy becomes more pervasive. The Reserve Bank of India will lower the benchmark repurchase rate by 25 basis points to 5.5%, according to almost all of the 36 economists surveyed by Bloomberg. Swap markets are pricing in at least another 50 basis points of reductions before the end of 2019. Finance Minister Nirmala Sitharaman has ratcheted up pressure on the six-member monetary policy committee for a “significant cut” to lift economic growth from a five-year low. Inflation that’s stayed below the central bank’s 4% medium-term target for 11 months in a row and the Federal Reserve’s first rate cut since the financial crisis allows room to retain the policy makers’ easing bias. A quarter-point cut will take the benchmark rate to the lowest since April 2010. With price pressures anchored, the central bank may have the leeway to keep rates lower for longer. “We expect 75 basis
points of additional rate cuts spread over August, the fourth quarter of 2019 and the first quarter of 2020, taking the repo rate to 5% by March 2020,” said Pranjul Bhandari, chief India economist at HSBC Holdings Plc in Mumbai. The headline inflation will stay below the RBI’s medium-term target for the “foreseeable future” due to a lack of underlying price pressures across sectors, she said. Policy action will be data-dependent, RBI Governor Shaktikanta Das said in an interview last month, while suggesting that the MPC has already delivered 100 basis points worth of easing as he equated a switch to an accommodative stance to a 25 basis-point cut. Incoming data also doesn't show any momentum in the economy. A slew of high-frequency indicators — from sliding car sales to a contraction in exports and imports of goods — suggest the economy is yet to recover from a dismal performance in the first three months of this year, when growth slumped to a five-year low of 5.8%. An uncertain monsoon is adding to worries about rural consumption and wages, while rising unemployment and the aftermath of a shadow bank crisis is weighing on consumer sentiment in urban India. That's pulling down capital expenditure by companies too. According to the Center for Monitoring Indian Economy, capital spending on new projects was 0.69 trillion rupees ($9.8 billion) in the June quarter, down from 2.44 trillion rupees in March and 2.51 trillion in the December quarter. “The Reserve Bank of India has pumped sufficient liquidity into the banking system. This has aided transmission of policy rate cuts to lower short-term, but not long-term, deposit rates. What it needs to do now – make a clear commitment to keep the banking system flush with liquidity,” said economist Abhishek Gupta. The deteriorating macro picture is pushing the swap market to price in more than two rate cuts for the rest of 2019, according to IDFC Asset Management Co. “This is consistent with a macro view of slowing growth and subdued inflation, especially as fiscal policy has prudently refrained from any counter-cyclical stimulus,” Suyash Choudhary, head of fixed income at IDFC Asset, said. Yields have declined by 51 basis points in July, the most since November 2016, as the government surprised markets by lowering its budget deficit target and announced plans to shift some of the borrowings offshore. The overseas bond sale has been mired in controversy, but overall the trend for domestic borrowing and lending rates has been lower. “While the cost of capital is headed lower, we believe further moves will be in baby steps, driven by lowering of inflation expectations, a global recession notwithstanding,” said Teresa John, an economist at Nirmal Bang Equities Ltd. “We expect a pause after a 25 basis points rate cut in August, with further rate cuts of about 50 basis points likely in early FY21,” she added.

Dated: Aug 06, 2019

• J&K Bank To Benefit In The Long Run, Likely To See Shareholding Rejig:

Jammu & Kashmir Bank, the most prominent institution in the state, may see changes in shareholding following the withdrawal of statehood for Jammu & Kashmir, but analysts do not expect any fundamental change for the bank which is struggling with asset quality issues. The bank is 59.23% owned by the state government. Now, as Jammu & Kashmir becomes a union territory, there could be some long-drawn process for a change in the shareholding. As of today, chief secretary of the J&K government holds 55.89% in the bank with the secretary,
finance department of the government, holding 3.34%. Analysts and stakeholders expect changes in shareholding in the bank while it may take a few weeks for a clearer picture to emerge. “It's too early to talk about changes in the shareholding pattern. A lot will depend on how the central government handles the entire issue,” said Sanjeev Jain, vice president for equity research at Sunness Capital India. “Fundamentally, there will be no change for the bank as the lender is facing asset quality concerns. However, today's development should benefit the bank in the long run with better business prospects,” Jain said. The bank has largely thrived on government businesses. The question which keeps everybody guessing after Monday's development is whether the central government will infuse equity into the bank following the change in shareholding. Till date, the bank was treated as a private sector entity. A senior executive at Reserve Bank of India said the central bank was taking a wait and watch policy while it did not make any official comment on the shareholding issue. The shares of the bank fell 3.13% Monday to Rs. 34.10 on BSE. The lender reported a 58% dip in net profit at Rs. 22 crore in the June quarter on account of rise in provisions for bad loans.

Dated: Aug 06, 2019

• Finance Ministry To Issue Norms For NBFC Asset Buy Scheme This Week:

The Department of Financial Services (DFS) will issue the norms for the one-time partial credit guarantee scheme for public sector banks (PSBs) to purchase high-rated pooled assets of financially sound non-banking finance companies (NBFCs), a senior official said on Tuesday. “The guidelines are ready, we will issue them in 1 to 2 days time”, Finance and Banking Secretary Rajeev Kumar said here during a review on the performance of state-run banks. Last week, the Finance Ministry had said it would put in place an oversight mechanism for the one-time partial credit guarantee scheme for PSBs to purchase high-rated pooled assets of financially sound NBFCs as announced in the Budget 2019-20. The government has received a proposal from the Reserve Bank of India (RBI) on the draft modalities of the credit guarantee scheme, which would be operationalised by the RBI. Presenting her maiden Union Budget in July, Finance Minister Nirmala Sitharaman had announced that the government would provide a one-time partial credit guarantee of six months to PSBs for the first loss of up to 10 per cent to enable them to purchase pooled assets of financially sound NBFCs amounting to ₹1 lakh crore. This was aimed at ensuring financial support to the stressed housing finance companies (HFCs) and NBFCs which were facing a severe liquidity crunch following the series of payment defaults by IL&FS. This caused the drying up of bank funds to the NBFCs and HFCs from lenders fearing further addition to their massive non-performing assets (NPAs or bad loans), creating, thereby, a spiral effect on the economy. “This would ease the liquidity stress in the NBFC sector and increase the access of these NBFCs to bank finance and, in turn, would enable them to continue to play their role in meeting the financing requirements of the economy”, the statement said. Sources here said the state-run banks would be allowed to pick up primarily ‘AA’ rated assets of the NBFCs who have not defaulted, while only banks outside the RBI’s Prompt Corrective Action (PCA) framework for resolving bad loans and
those with strong balance sheets like State Bank of India (SBI), Canara Bank and Bank of Baroda would be allowed to participate in the scheme. In a bid to improve regulatory oversight, the government has also proposed to bring housing finance companies under the RBI, removing them from the control of the National Housing Bank. All these steps are aimed at improving the condition of the NBFC sector as a whole.

Source: https://www.livemint.com/industry/banking/finance-ministry-to-issue-norms-for-nbfc-asset-buy-scheme-this-week-1565083929589.html

Dated: Aug 06, 2019

- **Govt To Enable Access Of Multiple Account Linking On BHIM App:**

Users of payment app BHIM will be able to access and operate multiple bank accounts in the next version of the platform planned to be launched by October. “BHIM is being upgraded. It will allow users to access multiple bank accounts from the app in the next version which will be launched by October,” said an official of the Ministry of Electronics and IT. The official said the next version of BHIM will give full-fledged competition to private payment platforms. “BHIM already facilitates payment service for utilities. We are bringing several other merchants also on board. This will enable users to buy products and services from them and pay them through the app,” the officer said. Any user who has linked his mobile phone number with a bank account can carry out transactions on BHIM app. In June, over 1.5 crore transactions worth Rs 6,202 crore were carried on the BHIM platform.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/govt-to-enable-access-of-multiple-account-linking-on-bhim-app/articleshow/70555280.cms

Dated: Aug 06, 2019

- **RBI Has Done Its Dharma, Now It Needs To Be Careful About Karma:**

The credit for the phenomenal drop in retail inflation, India’s biggest headache over the past several years, goes to its central bank. Indeed, as former governor of the Reserve Bank of India (RBI) D. Subbarao said, it is the central bank's dharma to manage inflation and RBI has delivered on it. As of last count, retail inflation was still below 4%, a medium-term aspiration for decades that turned into a formal target in 2016. With that out of the way, the focus point of policymakers obviously is the floundering economic growth. Here is where RBI needs to be careful about its karma so far. Its six-member monetary policy committee has voted for a cumulative 75 basis point cut in just six months’ time. RBI has also flushed the banking system with enough liquidity. But the money isn’t flowing freely or even pushing banks to lend. That is because money doesn’t move unless it has trust with it. That is why a liquidity surplus of over ₹2 trillion and rate cuts haven’t brought down bank lending rates. The weighted average lending rate on outstanding loans increased between January and May, while that of fresh loans fell by just 11 basis points. Add the crisis surrounding non-bank lenders, the impact on growth cannot be ignored. The lack of transmission has two parts to it. The trust part is where the central bank can do little beyond what it has done already. Of course, it has to detail the liquidity framework that RBI promised at its previous meeting. “Markets would also wait for signalling from the central bank on whether it intends to keep liquidity in surplus for an extended period of time. This could also infuse confidence and in turn assist in better transmission of monetary policy,” analysts
at ICICI Bank Ltd said in a note. What RBI can do is create conditions where trust can be cultivated. That means making the government more honest about fiscal deficit in the first place. Cumulative public sector borrowing is crowding out private sector borrowers, which is the second part of the transmission problem. The rise of off-balance sheet borrowing even as the headline fiscal deficit remains at 3.3% of gross domestic product is skewing the pitch for transmission. This is coinciding with a steady decline in household savings, the backbone of funding in the country. With most of the savings cornered by the government, there is little left for private sector companies. As banker to the exchequer, RBI needs to sensitise the government on the effect off-balance sheet borrowing has had on private sector borrowers. Surely, when the fiscal math is being questioned, the sovereign cannot enjoy lower cost of borrowing through a sharp drop in bond yields. Sovereign bond yields have dropped more than 60 basis points since the last policy meeting in June. Governor Shaktikanta Das needs to show some tough love to the government or else the karma of his inaction would pose difficulties in future.

- **Chronicling The Journey Of Indian Private Banks:**

Twenty five years ago when Aditya Puri and Paresh Sukthankar sat with a band of bankers to tell potential investors in the initial public offering of HDFC Bank what they intended to do in their first three years, few knew what was possible. But regulations demanded they provide a business plan if they wanted capital from public markets. After weeks of deliberations, they concluded the safest bet would be to say HDFC Bank would have 300 branches in three years. Come 2019, it has 5,130 branches and plans to open 700 branches in a year. That’s the gap between how one visualises the future and what it actually turns out to be, if things go right. For HDFC Bank, which raised Rs 50 crore in an IPO in May 1995 at Rs 10 a share with a market capitalisation of Rs 5.98 lakh crore, and 8 others that started the journey in a fledgling free market for financial services, it was like heading into unchartered waters. It was a voyage that could end up like it did for Christopher Columbus or Ferdinand Magellan. Indian banking has its share of Columbuses and Magellans. A quarter of a century later, what is left is less than half of the banks that started from the grid. Accidents along the way killed some and other less efficient managed to marry themselves off to a financially sound partner. As the nation gambled with the idea of private sector banks a quarter of a century after nationalising banks in the name of socialism, there were doubts, hopes and fear. Almost all of them came true. Some destroyed value, others created – for the nation, shareholders, depositors and customers. “Largely they have turned out to be successful,” says C Rangarajan, the architect of private bank licences as the Governor of the Reserve Bank of India.

Dated: Aug 07, 2019
“There have been one or two failures. But that will happen. But the whole thing is that private sector banks have established a position and their share in the total market is now significant, which was negligible in 1992.” The Indian banking industry was Rs 2 lakh crore in 1995 with the nationalised banks being the sole financial services providers with a minuscule contribution from old private sector banks such as Karnataka Bank or Tamilnad Mercantile Bank. Of course, the size of the economy was relatively small too at Rs 1,015 lakh crore. Bankers in the government-owned banks hardly had an elbow room to do any banking with almost everything dictated by the regulator. The industry was more like a piggybank for the government and the industrialists it favoured. Entrepreneurs with connections could get their way and individuals just put in their deposits without much scope to borrow from. Historical reasons led to many new lenders such as HDFC Bank starting as wholesale banks. But over time, they realised there is an untapped potential in retail lending and CEOs like KV Kamath of ICICI Bank revolutionised retail lending for cars and personal loans. “Retail had to be a big thing because Indians were underserved,” says Janmejay Sihha, chairman, Boston Consulting Group, a consultant. “We need to give credit to people like Aditya Puri, KV Kamath and PJ Nayak. Initially, they went after foreign banks and made their presence felt in forex, trade finance, mass affluent and structured products. And then they went to take on the public sector banks.” Lending to individuals was non-existent. Now they account for 27% of total banking sector loans. Home mortgages account for 50.5% of ICICI Bank’s retail portfolio, and for SBI retail portion is 34% of total loans. Other than growing retail business, the advent of private banks led to the entry of technology into banks. Contrary to bankers breaking computers in early 90s in protest against replacing the bulky black ledgers with desktop computers, they adopted Core Banking Solutions which ended almost 15 days wait to get credit for outstation cheques. “They also encouraged existing players to introduce new technologies and also encouraged rest of the banking sector, including foreign banks to improve,” says Paresh Sukthankar, former deputy managing director at HDFC Bank. “The turnaround time that used to take days, be it sanctioning loans, settlements or cash management, has now come down to minutes. A loan can be now sanctioned in five minutes.” Almost every reform is born out of a crisis. So is the case with Indian economic reforms. The Balance of Payments crisis in 1991 forced the government to begin dismantling the licence permit raj. As Manmohan Singh began setting up framework for fiscal reforms under Prime Minister Narasimha Rao’s direction, Rangarajan as Governor began erecting a new monetary edifice. Although RBI had the mandate to issue new banking licences, it did not until 1994 when the dust over the financial crisis settled. It was also the time when the markets were rocked by frauds in the nonbanking finance companies segment with CRB Financial being the prime example. It was a providential escape for the RBI which was about to give a banking licence to CRB as well. The central bank had to guard against one particular issue — big industrialists — a smokescreen created to nationalise banks in the first place by Indira Gandhi in 1969. They were barred from bidding. “If we left it open, thousands of applications would come and one question that arose was whether business houses should be given the licence or not,” says Rangarajan. “So we took the view that we
cannot give licences to the private corporates. We had a sort of priority in which we did give to financial institutions which were already there, where we saw ICICI, IDBI and HDFC got the licences.” Institutions such as IDBI, ICICI, HDFC and UTI were given licences. Others who managed were Centurion Bank, Bank of Punjab, Times Bank, Global Trust Bank and IndusInd Bank of the Hindujas. Barring IndusInd, all the others are merged into another bank. Global Trust Bank, run by a former banker Ramesh Gelli, was the first one to blow up among the new-age banks in the midst of a scandal. It raised questions about RBI’s judgement. But the central bank was quick enough to identify problems and merge it with Oriental Bank of Commerce in 2004. “Soon after I joined as Governor in September 2003, I had to take a view on cleaning up GTB,” YV Reddy writes in his memoirs, Advice & Dissent. “GTB continued to be on the list of problem banks. We sounded leading private sector banks if they could take over GTB. Surprisingly, they did not evince interest. We decided to act before it is too late.” Whether it was Global Trust or Centurion, the managements were in a hurry to build up market valuations. Greed got the better of virtue. “What went wrong with the others that went bust — one tends to go on to the fringes of integrity,” says Sukthankar. “It is not black and white. Some of the easy mistakes that you made are not visible at the top level. You can generate positive returns only if you protect your integrity. Success of HDFC Bank is not because what we did, but also because what we did not do.” Centurion Bank of Punjab and Times Bank merged with HDFC Bank. IDBI Bank, which merged with parent Industrial Development Bank of India, is a standing example of how not to run an institution. “Private banks gave you a chance to become rich,” says Sinha of BCG. “But boards did not do all that well. Governance was an issue. The quality of the board of directors of these banks has been varied. They have not managed to keep a check on CEOs, succession planning and not robustly manage risks.” Since Rangarajan’s time of restricted licensing and completely barring industrialists, the RBI has come a long way. Now licences are on tap. That Hindujas-run IndusInd, after getting licence as a group of non-resident individuals to avoid getting grouped under ‘industrialists’ opens up many possibilities. But at the same time worries about ownership have begun to surface with foreigners owning the bulk of Indian private banks. “Foreign shareholding in the largest private sector banks is well over 70%,” Reddy said in a recent lecture. “Our banking system is predominantly owned by government, followed by foreigners and least by Indians. I repeat least by Indians. Indian-incorporated but foreign-owned banks are no substitute for Indian-owned banks. With the widespread acceptance of proxy advisers by foreign institutional advisers, they operate in tandem. Hence, the diversified ownership as a buffer is a myth.” HDFC Bank is 38.64% owned by foreign investors. As far as ICICI Bank is concerned, 43.2% is owned by global portfolio investors. In IndusInd Bank, it is 51.47% and 40.52% in Kotak Mahindra Bank. They constitute 81% of the total Rs 15.4 lakh crore market capitalisation of all new private sector bank. This exposes India to the whims and fancies of political leaders elsewhere. President Donald Trump has been unconventional when it comes to global trade and investments. He has torn many treaties and agreements putting businesses at risk. “More than 40% of the new private banks in India are owned by US investors,” says Sinha of BCG. “So if the US
President announces sanctions for some reason, then we could be in trouble. Imagine if there were sanctions against India and in case of a capital pull-out, from where could we raise so much capital? We have to be deeply careful on our exposure.” At the same time, the regulator also has to revisit its guidelines on licences. Of late, the shadow banking system like the nonbanking finance companies have become critical. In fact, it is their weakness that has shaken the system in the past year. Given that nearly half the NBFCs that account for more than a quarter of the segment is owned by industrial groups, they may have to be considered for a bank licence with checks and balances. But the central bank may be more careful than ever with a lender like Yes Bank causing troubles in the system and many NBFCs getting into trouble because of mismanagement. “My view is that when we start giving licences now, you should look at what India needs not now, but two decades from now,” says Rangarajan. Given the current gloom and none seeking bank licences on tap, what’s possible for a new bank? “Now we say our story has just begun,” says Puri of HDFC Bank. “You see us in five years from today...you will not recognise the bank. So we are again a start-up now.” Is it time for RBI to roll the dice again?

Dated: Aug 07, 2019

• RBI Cuts Repo Rate By 35 Bps, Revises GDP Growth Lower:

The Reserve Bank of India (RBI) today cut repo rate for fourth time this year as benign inflation provides the central bank room to help an economy that is growing at its slowest in nearly five years. The RBI’s monetary policy committee, led by governor Shaktikanta Das, lowered repo rate by 35% basis points to 5.4%. Almost 80% of 66 economists surveyed by Reuters expected the RBI to cut its benchmark repo rate by 25 bps while three predicted a 50 bps cut. The RBI also lowered the GDP growth rate for 2019-20 lower to 6.9%, as compared to earlier estimate of 7%. All members of the MPC unanimously voted to reduce the policy repo rate and to maintain the accommodative stance of monetary policy. The last time the RBI made so many back-to-back cuts was after the global financial crisis over a decade ago, when most major central banks were desperate to revive economic growth. A slew of high-frequency indicators - including sliding car sales - suggest the economy is yet to recover from a dismal performance in the first three months of this year, when GDP growth slumped to a five-year low of 5.8%. Running at 3.18% in June, India’s retail inflation has remained below the central bank’s medium-term target of 4% for almost a year. Monsoon, after a poor start, has also picked up. Last month, the US Federal Reserve cut interest rate for the first time since global financial crisis.
This allows RBI room to retain easing bias, say analysts. But analysts say that rate cuts alone cannot help India’s economy unless the benefits are passed on to consumers and corporate borrowers. Banks, saddled with bad debt, have been slow to reduce lending rates despite the RBI’s prodding.

Dated: Aug 07, 2019

• **NEFT Timings To Change From December, RBI Announces:**

The Reserve Bank of India will soon make National Electronic Fund Transfer available round the clock on all days for bank customers. Currently, the channel can only be used between 8am to 7pm on working days. “The Reserve Bank will make available the NEFT system on a 24x7 basis from December this year. This is expected to revolutionise the retail payments system of the country,” governor Shaktikanta Das said during the Monetary Policy press conference. The announcement comes in line with RBI’s Payments Settlement Vision 2019 to 2021 where it was first proposed to make all NEFT and RTGS transfers round the clock for customers and free for all. NEFT is central bank-controlled interoperable payment channels used for fund transfer by a customer between different accounts. These transactions are done on time batches unlike RTGS which makes this mode of payments non-instantaneous. However, while NEFT doesn’t have any minimum transaction limit, RTGS can only be used for high-value transactions with a minimum limit of Rs.2 lakh. The central bank in the last policy had announced transactions routed through NEFT platforms would no longer attract RBI fees, which prompted all major banks to pass on these benefits to customers across India, one of the rare large economies where cheques are still the preferred payment method for many bank account holders. The policy decision has been aimed at achieving New Delhi's broader ambition of enhancing adoption of digital channels for payments and reducing the reliance on cash.

Dated: Aug 07, 2019

• **Lending Norms, Exposure Limits Eased For NBFCs:**

The Reserve Bank of India today relaxed bank lending norms to non-banking finance companies and eased bank’s exposure limits to help the sector under stress. RBI allowed banks on lending to Agri, MSMEs and affordable housing to be treated as priority sector lending for banks and increased exposure limits of bank lending to NBFCs. The central bank has raised bank’s exposure limit to a single NBFC to 20% of the Tier-I capital of the bank against the current 15%. “With a view to further increasing the credit flow to certain priority sectors which contribute significantly to the economic growth in terms of export and employment, and recognizing the role played by NBFCs in providing credit to these sectors, it has been decided to allow, subject to certain conditions, bank lending to registered NBFCs (other than MFIs),” RBI said. Banks are allowed on-lending to agriculture up to Rs 10 lakhs and micro and small enterprises up to Rs 20 lakh and housing up to Rs 20 lakh per borrower to be classified as priority sector lending. “Under the revised guidelines on large exposure framework that came into effect from April 1, 2019, a bank’s exposure to a single NBFC is restricted to 15 per cent of its Tier I capital, while for entities in...
the other sectors the exposure limit is, 20 percent of Tier I capital of the bank, which can be extended to 25 per cent by banks’ Boards under exceptional circumstances,” RBI said. “As a step towards harmonisation of the counterparty exposure limit to single NBFC with that of the general limit, it has been decided to raise a bank’s exposure limit to a single NBFC to 20% of Tier-I capital of the bank.”

Dated: Aug 07, 2019

• **Shri Shaktikanta Das Expects Banks To Cut Home, Auto Loans Faster:**

After delivering an unprecedented 35 bps in the policy, the Reserve Bank of India Governor Shaktikanta Das yet again raised the issue of lower transmission of policy rates by banks and said that there was a full transmission of policy rates by the financial markets. Das added that he expects banks to transmit policy cuts in a faster manner after announcing the fourth consecutive rate cut by the regulator. Monetary rate impulses have been transmitted fully through the financial markets, weighted average call money rate declined by 78 bps, market repo rate is down by 73 bps, 10-year benchmark yield is down 102 bps but banks have only transmitted 29 bps between February to June on fresh rupee loans, the Governor said. “In my interactions with banks they have indicated that they are progressively taking steps to lower their interest rates so that benefits of policy rate cuts are reflected,” he said while addressing the media after announcing the third bi-monthly monetary policy for 2019-20. “We expect higher transmission of policy rates by banks in the coming weeks.” The RBI has so far cut policy rates by 110 basis points and changed its stance to accommodative. But, banks have claimed that their cost of funds have remained high due to higher deposit rates, in fact Credit-Deposit ratios have been high over the last two years. “It is for banks to decide who they lend to, RBI is creating an enabling environment for banks to improve credit flow, I expect credit flow to pick up soon,” Das added. “Please understand that banks are coming out of a continuous NPA cycle, they have faced losses for consecutive quarters so credit will pick in the coming weeks and months.” The finance ministry on Monday had said that banks have agreed to take steps to review lending rates as they have not “commensurately” transmitted to borrowers benefits of reduction in the policy rate by the RBI. “Banks need to commensurately transmit rate cut benefit in lending. In the meeting, banks agreed to take steps as per RBI guidelines to review their lending rates,” the ministry said in a release.

Dated: Aug 07, 2019

• **RBI Brings In Major Change In Bharat Bill Payment System Regime:**

The Reserve Bank of India on Wednesday said it will allow all categories of billers except prepaid recharges under the Bharat Bill Payment system (BBPS). The BBPS currently covers billers in five segments, DTH, electricity, gas, telecom and water bills. The regulator is expected to issue detailed instructions in this regard by the end of September 2019. “To leverage the advantages of the BBPS and harness its full potential, it has been decided to permit all categories of billers (except prepaid recharges) who provide for recurring bill payments to participate in BBPS on a voluntary basis,”
the RBI said. Apart from digitisation of cash-based bill payments, this move will also enable standardised bill payment experience, centralised customer grievance redressal mechanism and standardised customer convenience fee. The regulator also allowed on-tap authorisation of retail payment systems to companies looking to function as BBPOU, TReDS and white-label ATMs. Instructions to this effect will be issued by the end of September 2019. “To benefit from diversification of risk as also to encourage innovation and competition, it has been decided to offer ‘on tap’ authorisation to entities desirous to function/operate/provide platforms for Bharat Bill Payment Operating Unit (BBPOU), Trade Receivables Discounting System (TReDS) and White Label ATMs (WLAs),” it said in a release.

Dated: Aug 07, 2019

- RBI Brings In Central Fraud Registry, A Likely Major Gamechanger For Banking:

The Reserve Bank of India will create a Central Payment Fraud Registry to monitor digital payments related frauds on a real-time basis and provide customers with periodic aggregated data of risks associated with individual payments operators in a bid to improve customer confidence in these channels. “In order to carry forward these efforts and ensure quick and systemic responses, it is proposed to facilitate the creation of a Central Payment Fraud Registry that will track these frauds,” central bank governor Shaktikanta Das said during Monetary Policy press conference. “Payment system participants will be provided access to this registry for near-real time fraud monitoring. The aggregated fraud data will be published to educate customers on emerging risks.” A detail framework on the proposed registry would be released by the regulators in October, the governor said. ET on July 16 had reported that the top regulators were mulling over creation of such a common registry in a bid to curb payments and debit card related frauds. Currently, RBI has a mechanism in place for banks to report all banking frauds to the Central Fraud Monitoring Cell of the Reserve Bank. The proposed registry may extend the platform to all payments operators. “With the digital payment ecosystem making substantial progress in terms of growth of payment infrastructure as well as volume and value of digital payment transactions, fraud risk monitoring and management by the stakeholders have assumed importance,” Das said. The central fraud registry was proposed earlier both in the Nandan Nilekani committee report and RBI’s payments vision document 2019 to 2021. “This registry should be accessible to all payment system participants on a near real-time basis, who may use it to evaluate the fraud risk for all users, and transactions (dynamically). This risk rating may be used to provide additional protections to the user,” the Nilekani committee on deepening digital payments had said in its report.

Dated: Aug 07, 2019

- RBI Cuts Repo Rate By 35 Bps To 9-Year Low:

The Reserve Bank made a higher-than-expected reduction in interest rates as the monetary policy committee (MPC) voted decisively to give the “highest priority” to economic growth amid a benign inflation
outlook. But the unconventional quantum of reduction in the repo rate — 35 basis points (bps) threw some market participants into a tizzy with future reductions becoming unpredictable. Interest rate changes are typically in 25 basis point increments. The cut brings repo rate to a nine-year low. Governor Shaktikanta Das came up with a multi-pronged attack to lower rates for consumers by promising adequate liquidity and reducing cost of capital for banks by lowering risk weights for consumer loans, except credit cards. “The RBI has unveiled a host of bazooka measures to arrest the recent growth pangs,” said SBI chairman Rajnish Kumar. “The decision to cut repo rates by an unconventional 35 basis points is perhaps a recognition that monetary policy works best with unanticipated surprises to market.” Slumping demand led to MPC slashing the growth forecast by a magnitude not seen since it was formed, and it reduced the inflation target as well. A basis point is 0.01 percentage point. “The MPC judged that with inflation projected to remain within the target, addressing growth concerns by boosting aggregate demand, especially private investment, assumes the highest priority at this juncture,” Das told reporters. “The MPC was of the view that the standard 25 basis points might prove to be inadequate in view of the evolving global and domestic macroeconomic developments.” The six-member MPC voted unanimously to reduce the rates, but two of the three independent members sought a cut of 25 basis points, while the remaining four wanted a lowering of 35 basis points. With the fourth reduction in the lowering cycle, the repo rate — at which the central bank lends to banks — is now at 5.4%. All other related rates were adjusted accordingly. “The increased pace of rate cuts and an accommodative stance opens room for future rate cuts,” said Rahul Bajoria, economist at Barclays. “Neither the policy statement nor the governor’s commentary gave any hint that the central bank is done with its easing cycle. The emphasis on boosting aggregate demand and closing the output gap gives room for more cuts.” The RBI joins global central banks in reducing the cost of funds to beat an economic slowdown partly induced by trade wars and slowing demand in domestic economies. The US Federal Reserve reduced rates by a quarter point recently, but dampened expectations by highlighting that this was more a mid-cycle adjustment rather than the beginning of a lower-rate cycle. The central banks of countries such as Thailand and New Zealand have also cut interest rates. In India, the slowest economic growth in five years is compounded by a credit squeeze in the financial sector with nonbanking finance companies facing a liquidity squeeze. Dewan Housing Finance Corp (DHFL), Indiabulls Housing and Piramal Enterprises among others have cut down on lending to preserve cash. Equity investors shrugged off the lower cost of funds as earnings continued to disappoint. The Sensex fell 0.8% to 36,690. Top tractor maker Mahindra & Mahindra and Tata Steel reported a decline in earnings after the market closed. State Bank of India chairman Kumar and HDFC Bank CEO Aditya Puri among other top bosses have pointed to a slowdown, although they expect a turnaround. Benchmark 10-year bond yields rose 3 basis points, but shorter-end bonds rallied due to the higher-than-expected cut. Risk aversion has led to the sale of automobiles and household goods being hit. With companies cutting costs, lenders are getting more reluctant to give consumer loans amid overall belt-tightening. But the RBI has promised to do its part to revive spirits. ‘The Reserve Bank is committed to ensuring that sufficient liquidity is available
so that the needs of all productive sectors of the economy are met,” said Das. “Towards this objective, the Reserve Bank will use its liquidity management instruments to ensure that the system’s requirements of both day-to-day liquidity and durable liquidity are adequately provided.” While it cut the growth forecast by 10 basis points for the fiscal year to 6.9%, its first-half forecast was slashed to 5.8-6.6% from 6.4-6.7% estimated in June. With the monsoon becoming more widespread than in the initial phase, the MPC set aside fears of inflation driven by food prices.

Credit cards in circulation touched 48.9 million in May from 38.6 million in the same period last year, data sourced from the Reserve Bank of India showed. The 27% growth has thrown up new business opportunities, say payment industry executives. India has primarily been a debit card market, with more than 824 million such cards in the system, as per RBI figures. Unified Payments Interface (UPI) and mobile wallets have grabbed the attention of policymakers, but the increase in the number of credit cards is not only an indication of growing digital payments but also the expansion of retail borrowers in the ecosystem. “We are issuing nearly a million new credit cards per month and the number of unique credit card users could be in the range of 25 to 30 million, which shows the market has grown phenomenally well,” said Madhusudanan R, founder, Yap, which offers a platform for all forms of payment solutions to banks, NBFCs and fin-tech companies. The total transaction value on credit cards has also gone up. In 2018-19, consumers spent around Rs 6 lakh crore using their credit cards, 30% higher from the Rs 4.6 lakh crore in 2017-18. HDFC Bank has issued 12 million credit cards, while State Bank of India has more than 8.7 million cards in the system, followed by ICICI Bank and Axis Bank. “Our growth has been possible due to our focus on bringing out innovative and industry-first products, cobranded partnerships, cashback programmes and technology. Since October 2017, we have focused on tapping SBI customers for new card acquisitions which has also ensured that our portfolio remains healthy in terms of delinquency,” said Hardayal Prasad, chief executive officer, SBI Card. Besides banks, many fin-techs are cashing in on the credit cards boom. Cred, started last year by Freecharge founder Kunal Shah, is one of the biggest players in

Dated: Aug 08, 2019

• Credit Card Usage Rides On Digital Push, Grows 27%:
this space, while there are also a few early-stage companies such as Slice Pay and EnKash. Large tech companies like Paytm, Flipkart and Ola too have started their own credit cards. “We are offering our product to employees of startups, students of major colleges, generally consumers who are new to credit, and who will never be catered to by traditional banks,” said Rajan Bajaj, chief executive officer, Slice Pay. “We are using RuPay to settle card transactions and our banking partner is Yes Bank.”

Dated: Aug 08, 2019

- RBI’s Survey Shows Indian Companies Are Worried About Funding:

There is a general gloom in discussions about the Indian economy as both the engines that power it have slowed down. Private investment has been comatose for long, while consumption demand has begun to wobble. Why are Indian businessmen worried about the future and what are they worried about the most? The industrial survey conducted by Reserve Bank of India (RBI) throws some light on this. The survey sought response from 1,231 companies. The business sentiment indices show that Indian manufacturing companies are satisfied with the current environment, but are cautious on the prospects of the coming quarter. The expectations index has dropped to 112.8 for the September quarter from 113.5 for the June quarter. Companies are extremely pessimistic about the cost of funding and are also less optimistic than before on availability of funding. This shows the dent from the ongoing liquidity crisis among non-bank finance companies. Besides funding, companies are worried that they won’t be able to sell their wares like they used to, and therefore inventories would pile up leading to cut in production. This is already visible in the auto industry. The optimism over employment, exports and use of capacity has declined. The only silver lining that would help companies maintain profit margins is the sharp drop in input prices seen recently. The broadband pessimism among companies does not augur well for private investment, already depressed for long now. When businesses are unsure about future profitability, it is obvious they wouldn’t want to invest.

Dated: Aug 08, 2019

- IndiabullsFounder To Cede Control After Lakshmi Vilas Bank Merger:

In an all-out bid to convince the Reserve Bank of India (RBI), Indiabulls founder Sameer Gehlaut has promised the regulator that he will relinquish all control and rights,
have no say in the management, and bring
the promoter group shareholding below
10% in the proposed bank to be formed after
the merger of Indiabulls Housing Finance
with Lakshmi Vilas Bank (LVB). With banks
and mutual funds unwilling to lend to most
non-banking finance companies (NBFCs)
after the collapse of Infrastructure Leasing
& Financial Services (IL&FS) and default by
Dewan Housing Finance Corporation Ltd
(DHFL), Indiabulls Housing had moved RBI
to transform itself into a bank by merging
with LVB. RBI which is typically slow and
selective in issuing new banking licence,
letting a large companies convert into
banks, and even permitting corporates and
individuals pick up more than 5% in a private
bank is yet to approve the merger proposal.

Probably trying to allay regulatory concerns,
Gehlaut in a letter dated July 29 had assured
RBI that the merged entity will not be
identified with any group, a source told ET.
According to the letter, all steps signifying a
cessation of ‘control’ as per applicable laws
and judicial precedents would be taken,
said the person. Earlier, Indiabulls founder
Gehlaut had committed that his stake (along
with all corporate promoters acting in
concert with him) would be below 15% in
the entity that will come into existence after
the merger with Chennai-headquartered old
private sector lender, LVB. The promoters
currently hold 21.5% in Indiabulls Housing,
which corresponds to 19.5% in the proposed
bank. However, Gehlaut in the July 29
letter told the central bank that “after
much reflection” he has decided that after
receiving regulatory approval, promoters’
stoake in the bank would be cut to less than
10%. “In the present environment, the
pressure on Indiabulls is almost palpable.
But, RBI will take its time... because once
this merger goes through, some of the other
small, capital-starved private banks and
NBFCs will explore merger,” said a senior
banker. Gehlaut also said that he and other
corporate promoters of Indiabulls Housing
Finance would ‘declassify’ themselves from
being the ‘promoter group’ in the merged
bank. Under Securities Exchange Board of
India (Sebi) rules, a combined promoters’
holding of less than 10% will fulfilling
the conditions of ‘depromoterisation’ in the new
entity. Once ‘declassified’ as promoters, such
shareholders will neither have special rights
that promoters enjoy under a company’s
articles of association nor will they be
required to make disclosures under the
insider trading rules of the capital market
regulator. Simultaneously, Gehlaut said
the promoter group would give up rights
to appoint majority of directors or control
the management or policy decisions. Since
he would hold no executive position,
Gehlaut has spelt out that he would have no
operational control over day-to-day affairs
and would not be in a position to directly
or indirectly influence the management
and business of the new entity. He is learnt
to have said that “the amalgamated bank
will be completely insulated from Sameer
Gehlaut group” where he will continue as
a promoter. Indiabulls has been trying to
distance itself from its real business given the
RBI’s customary reluctance to allow houses
associated with realty hold any meaningful
stake in banks. The group has diluted its
stake in the realty company Indiabulls Real
Estate by offloading a part of its holding to
Embassy Property Developments, a company
it has been dealing with for years. Indiabulls’
plan to sell additional stake to Embassy has
fallen through, thanks to volatility in the
stock market. According to media reports,
Indiabulls Real Estate is now in talks with
private equity house Blackstone to dilute
its interests in commercial properties. One
of India’s largest home finance companies,
Indiabulls Housing’s asset size is more than three times that of LVB, which was founded in 1926 by a group of businessmen in Karur to serve the financial needs of people in and around the region.

Dated: Aug 09, 2019

Five More PSBs Follow SBI, Link Deposit, Loan Rates To Repo:

Despite RBI giving them more leeway due to their poor bottomlines, five more state-run banks Friday announced linking their lending and deposit rates to the repo to facilitate faster transmission, following their larger per State Bank, which had linked its deposits and loans to the repo from May. While Syndicate Bank Friday said it has decided to link is deposits and loans to the repo rate for a wide range of products, its larger peers Bank of India, Union Bank and Allahabad Bank also said they are working on the modalities to launch similar products.

“Housing, vehicle and consumer loans will now be offered at a repo-linked rates basis. With the change, the housing loans will start from repo plus 2.90 percent at 8.30 percent,” Syndicate Bank said in a statement. Its saving bank deposits over Rs 25 lakh will also be based on the repo rate, it added. Bank of India said another dimension of rate transmission process is by way of offering repo linked lending rate to select customer segments, including personal loans. “We are working out the necessary modalities in this regard so as to launch such products during the current month,” Bank of India said. Union Bank said to provide better interest rate transmission it shall soon link its housing and vehicle loan portfolio to repo rate from the current marginal cost of funds based lending rate. “The bank will be exploring to develop products of both assets and liabilities linked with external benchmark to transmit the benefits of rate cut to our customers shortly,” Allahabad Bank managing director SS Mallikarjuna said. Another state-owned lender Indian Bank too said its home and vehicle loans will linked to the repo rate from August 15. These loans will carry interest that changes with the repo rate and thus facilitate quick transmission of the policy rate and will be effective from August 15, Indian Bank managing director PadmajaChunduru said. The move to link the deposit and lending rates by these four lenders come even as the Reserve Bank has not mandated them to do so. In May, SBI had said it would link its short-term loans and large savings deposits rates to the repo rate and its home loans from July. The nation’s largest lender linked its savings accounts with deposits over Rs 1 lakh and all cash credit accounts and overdrafts or short-term loans with limits above Rs 1 lakh, to the repo rate. In the post policy meeting with the reporters, RBI governor Shaktikanta Das had said the central bank recognizes that banks are just about coming out of their NPA mess amidst slow deposit growth. “So, administratively, we did not want to mandate it (external benchmarking) at that particular time; we are monitoring the situation and will take whatever steps are required to ensure better transmission. “It is better to allow the market forces to play. Wherever the regulatory interventions are required, we will take necessary regulatory measures,” he had told reporters Thursday after announcing a steep 35 bps repo cut to a nine- year low of 5.4 percent.

Dated: Aug 09, 2019
The Delhi High Court rapped the RBI on Friday for its “callous”, “careless” and “negligent” attitude in not filing a response, from February till date, to a PIL seeking to stop banks from sharing the PAN and financial transaction data of clients with credit rating agencies without the customers’ formal consent. A bench of Chief Justice D N Patel and Justice C Hari Shankar directed the deputy governor of the Reserve Bank of India (RBI) to be personally present before it on October 11, the next date of hearing, if no response and “vakalatnama” were filed on the bank’s behalf by then. The court was displeased that since the issuance of notice in the matter on February 9, the RBI had neither filed an affidavit nor a “vakalatnama” -- a document authorising a lawyer to represent a client -- despite three sets of lawyers appearing for it on three different dates since then. “The RBI has shown a callous and careless attitude in not filing an affidavit or a vakalatnama, despite issuance of notice on February 9, 2019. It appears that the RBI is negligent in assisting in the matter,” the bench said. It added that it was high time to direct senior RBI officers to present themselves before the court if no affidavit and “vakalatnama” were filed before the next date. “We, therefore, direct the deputy governor of the RBI to be personally present before us on the next date or file an affidavit and a vakalatnama through an advocate,” the bench said. It also made paisabazaar.com, an online marketplace for financial products, a party to the matter and issued notice to it on the plea moved by Abhijit Mishra, a financial economist, after he claimed that his personal financial data was found on the website. The court said it was including paisabazaar.com in the matter to find out from where did it get access to the petitioner’s financial data, to which Mishra said the website got the information from credit rating agencies -- Transunion CIBIL Ltd and the UK-based Experian PLC. The petition, filed through advocate Payal Bahl, claims that sharing of a customer’s Permanent Account Number (PAN) and other transaction details with credit rating agencies like Transunion CIBIL Ltd affects the person’s right to privacy. According to the petition, banks use the credit reports given by agencies such as CIBIL to decide whether to grant loans, issue credit cards and even to fix the rate of interest to be charged. Mishra has contended that the Central Board of Direct Taxes (CBDT) has not issued any notification regarding sharing of customers’ PAN and other transaction details by banks with any private or non-government entity. The petition states that even the Income Tax Act, 1961 does not allow sharing of the PAN data of citizens with agencies like CIBIL for the development of a credit score. The petition has sought directions to “immediately stop the credit institutions (banks) from sharing the details of transactions of customers and borrowers based on PAN”. It has also sought a direction to the RBI to frame a policy to regulate this practice.

Dated: Aug 09, 2019

Banks Near Zero Hour On $124 Trillion Of Flows:

What’s the first thing that comes to mind when someone mentions “remittance”? Expatriates sending money home. Second? Lousy exchange rates. While exorbitant currency spreads and hefty bank charges are
the norm for payments that cross national borders, the impression that they mostly affect individuals is wrong. Annual people-to-people transactions amount to $400 billion a year. People-to-business payments like sending fees to schools overseas come to another $1.5 trillion. Those are substantial figures, but they pale before the $124 trillion of business-to-business transfers, according to McKinsey & Co. A large multinational may be able to squeeze a saving from its corporate bank, but SMEs and individuals get routinely shortchanged. The challenge is acute in Asia, where money transfer costs are three-fifths higher than in Europe or the U.S. Capital controls and fragmented domestic banking industries breed inefficiency, which helps banks garner $85 billion in annual revenue – $38 billion more than what they make from cross-border transfers in North America. That hurts the competitiveness of smaller Asian firms. On their own banks would have done nothing to alter the status quo. But a rising challenge from Fintech means better rates are coming to Asia, and not a day too soon. The export-led region is deeply enmeshed in global supply chains. (The disruption caused by the China-U.S. trade war has demonstrated that amply.) Many of the small and midsize firms that move anywhere between $11 trillion and $15 trillion internationally are in Asia. To that add digital consumption, which is growing everywhere but exploding in the region. Finally, every small saving on Western Union transfers by Indian, Bangladeshi and Filipino overseas workers gives them more ability to consume other things. All this makes it crucial that clients in Asia – both individuals and small firms – get fair prices. But what’s fair? Zero, or a number very close to it, Harsh Sinha, the London-based chief technology officer at TransferWise Ltd., tells me. Currently, the global average for the payment industry ranges between $25 and $35. When the lender receiving customers’ funds needs a correspondent bank in another part of the world to complete the transaction, costs pile up. Something as innocuous as buying a cup of coffee with a Hong Kong credit card in Bangkok is punished for making unforeseen demands on local banking liquidity. TransferWise, an eight-year-old startup that’s now valued at $3.5 billion, came into being when its two Estonian-born co-founders, Taavet Hinrikus and Kristo Kaarmann, stumbled upon a solution: If one of them had pounds and needed kroons, the Estonian currency, and the other had the opposite need, they could be of mutual help. Since two flows can’t be perfectly matched, TransferWise uses algorithms to predict which country will need liquidity, when, and top up the bucket accordingly with its own funds. Customers get mid-market exchange rates – and not the vastly different “we buy at / we sell at” prices displayed by money-changers. TransferWise says it’s up to eight times cheaper than banks. Challenger banks reckon that fintech can help them shake the dominance of entrenched rivals. Sinha says TransferWise is open to bundling its money transfer service with another bank’s app, something it has done with Monzo in the U.K., and Bunq in the Netherlands. Now’s the time for such partnerships in Asia. As many as eight virtual banks will be arriving soon in Hong Kong. Singapore may license up to five. Taiwan has approved three. More are coming. Traditional banks must raise their game to keep customers from fleeing to the likes of TransferWise and Revolut Ltd., which are held up by researcher Oliver Wyman as examples of fintech specialists “capturing share from banks and driving down margins.” HSBC Holdings Plc, which together with a subsidiary has a lock on 30%
of Hong Kong’s deposits, started offering a “first ever” 12-currency debit card to its top-end customers last month. That still doesn’t match the 40-currency card that TransferWise is bringing to Singapore, its Asia-Pacific headquarters, later this year, though it does take care of the paying-for-coffee problem in Bangkok. TransferWise is already profitable and confident that as volumes grow from 4 billion pounds ($4.9 billion) a month, its costs per transaction will go down. Still, it did raise some fees last year for U.S. customers after conceding its previous charges were unsustainable. But banks can’t be smug. The revolution that apps like WeChat Pay and Alipay ushered in for domestic payments in China has caught on. As local-currency payments in Asia become instantaneous, cashless and cheap, customers will demand similar features when they remit funds overseas. After all, it’s not like an intermediary needs to move a sackful of dollars anywhere. As Sinha says, it’s just data hopping from one computer to another. Why should it cost $25?

Dated: Aug 09, 2019

- India’s Payments Bank Space, A Case Of Near Yet Too Far:

Sangharsh Nagar looks like a rural pocket trapped in the urban sprawl of Mumbai. A herd of goats roam around the main Khairani Road, blocking auto-rickshaws already jostling for space with mini-trucks. As it starts to rain, a furniture-shop owner quickly pulls the goats into the store. A little hillock with hutments on the east adds to the out-of-city feel. Only the high-rises on the western horizon remind you that the tony neighbourhoods of Chandivali and Powai are barely a kilometre away. There are many pockets like Sangharsh Nagar even in India’s financial capital where the need for financial inclusion cries out loud. The locality has some shops offering money-transfer facility. No banks or ATMs are in sight though, save for a branch of Fino Payments Bank. However, a solution to the lack of access to banking and insurance is playing out in a narrow lane. The little kirana shop run by Raj Kumar Gupta, 30, doubles up as a Fino Payments Bank merchant outlet. It services at least a hundred banking customers a day who come to deposit or withdraw cash or to transfer money to other banks. On good
days, Gupta even opens half a dozen new bank accounts and hands over instant debit cards to the new account holders. Such initiatives have helped people like Mahendra Thakur, 28, a barber from the village of Mokamo near Giridih in Jharkhand. Thakur, who opened his Fino Payments Bank account in his village, is happy he can operate it from Mumbai. BhikajiBalwant, a manual labourer with roots in Maharashtra’s Jalna, comes to Gupta’s kirana store to check his account balance. But he decides not to dip into the Rs 2,900 in the account. An elderly woman in a red salwar-kameez asks if she can come back at night to make a transaction. A new customer asks if the bank account comes with a cheque book. It does not, Gupta replies, but Fino is considering adding the facility. Outlets like Gupta’s get more banking customers in a day than the Fino Payments Bank branch on the main road. Often the store and the banking outlet feed off each other’s clientele, adds Gupta. Mahendra Thakur, 28, a resident of Jharkhand working as a barber in Mumbai, uses Fino’s kirana store outlets to transact and transfer money to his family. This is one of a dozen merchant outlets that Fino has set up in this area under the supervision of its Khairani Road branch.

A similar hub-and-spoke model has helped Fino expand across India. Sometimes its representatives visit homes with authentication equipment to help senior citizens make transactions. Two merchant outlets are coming up on top of the hillock so residents there can have easier access to the banking system. These initiatives might indicate a robust model in the payments bank space. But not all is hunky-dory. The Reserve Bank of India (RBI) had in 2015 issued 11 licences to entities to start payments banks. Today, there are only three serious players left in the market. Therefore, some questions have been raised if the model can succeed. Many have blamed RBI’s restrictions for the payments bank model not taking off. The Fino Payments Bank branch in Khairani Road uses a hub-and-spoke model of a branch and merchant outlets to reach unbanked customers. Chief economist of State Bank of India SoumyaKanti Ghosh said in a recent report: “Due to strict regulatory guidelines, payments banks’ business operations are restricted to only mobilising deposits and investing in government securities. This has led to substantial losses in their operations.” However, three players — Fino Payments Bank, Airtel Payments Bank and Paytm Payments Bank — seem to have cracked the business model. They also have big backers. Airtel Payments Bank has investments from Kotak Mahindra Bank; ICICI Bank, BPCL, IFC, Blackstone and Intel Capital have invested in Fino; Paytm Payments Bank’s promoter has the backing of Softbank and Alibaba. Among the other players, India Post Payments Bank was upgraded to a scheduled commercial bank in July. Jio Payments Bank, a joint venture between Reliance Industries and State Bank of India, is still in the pilot stage. The combined firepower of the giants could disrupt the field. NSDL Payments Bank had made a start in September 2018. Those who have backed out from the payments bank space include Tech Mahindra, Cholamandalam Finance and a consortium of IDFC Bank, Telenor and Sun Pharma. In late July, Aditya Birla Payments Bank said it would close operations by October 2019 due to “unanticipated developments” that rendered the “economic model unviable”. This came as a surprise. The Aditya Birla Group had two payments bank licences but had to give up the permit for the Vodafone m-Pesa platform when the Vodafone-Idea merger happened. On the heels of Aditya Birla Payments Bank declaring its intent to
shut down, SBI’s Ghosh painted a grim picture for the sector in a report dated July 22, 2019. His report, A Case of Near yet Too Far, pointed out that five payments banks posted a combined net loss of Rs 516 crore in 2017-18, even though they reported a positive net interest income (difference between interest earned and interest paid) of `151 crore. While most of the loss can be attributed to expenditure related to expansion, the positive net interest income suggests the payments bank model is inherently safe. Commenting on the limitations in the model, Ghosh wrote: “Payments banks emerging as a real competitor to banks is not a nearterm possibility.” There are various RBI restrictions on the sector, he said. Deposit collection for payments banks is capped at Rs 1 lakh per customer, and they are not allowed to lend. The money collected as deposits has to be parked in government securities and larger banks. “Payments banks are turning out to be working merely as an aggregator.” The steep capital requirement for payments banks — at 15% of risk-weighted assets against 8% according to Basel III norms and 9% mandated by RBI for scheduled commercial banks — would keep it free of credit risk and ensure low market risk, Ghosh said. But it would expose PBs to operational and liquidity risks. The experiment has failed as only so few were still operational and they can succeed only if they cross-sold services such as insurance and loans from other banks and have deep tie-ups with universal banks and telecom companies, he added. Active payments banks already follow what Ghosh has advocated. They are, in fact, champions of these tenets. Anubrata Biswas, MD & CEO of Airtel Payments Banks, which is backed by the telecom major, says they already use 5 lakh neighbourhood banking points to allow cash withdrawals and deposits. “We are excited about the payments bank model, which is anchored in the context of serving a very large underbanked and unbanked population of our country.” Fino has also capitalised on the tie-up route. Apart from selling insurance products of ICICI Lombard, it also helps generate leads for loans for ICICI Bank, which is one of its key promoters. It has also worked with ICICI Lombard to create a cashless hospitalisation medical insurance product (at government hospitals) at an annual premium of Rs 600. In a tie-up with Suryoday Small Finance Bank, Fino seems to have also worked around the Rs 1 lakh limit on deposits. If the deposit in a customer’s account crosses Rs 1 lakh, it is automatically transferred into a bank account in the customer’s name at Suryoday. A payments bank can take banking to the masses but it cannot aspire to be a regular bank, says managing director of Fino Rishi Gupta. It has to find its own business model. It must earn from transaction charges and fees, and not from the spread between interest rates for deposits and advances, he says. “Every service of ours is charged; nothing is free.” Fino had recorded revenues of Rs 375 crore in 2018-19 and expects to break even in 2019-20. A Paytm spokesperson says their payments bank became profitable in the first year of its operation and earned a net profit of Rs 19 crore in 2018-19. “Paytm Payments Bank focuses more on transactions than balances in the account,” he adds. Paytm started off as an e-wallet business but invested in converting its customers into bank account holders. Today it operates 27 crore wallets and 4.7 crore savings bank accounts. There is ample indication that some players got the model right and some did not. Adaptability seems to be the key. Payments banks have already requested the RBI to increase their deposit limit. An indicator of differentiation in the sector is
how the banks responded to the 2018-19 target of 30 billion digital transactions that was set by the Ministry of Electronics and Information Technology. While Airtel and Fino were able to reach more than double the target, Paytm clocked 122% of the target number, Jio scored 15%, Indiapost was at 0.15% and Aditya Birla barely opened its account. Rules for payments banks were announced back in 2015 and payments banks should explore the possibilities around current accounts to make the most of them, says Naveen Surya, the chairman of the Fintech Convergence Council of India. This will help them reach and serve small businesses. “You have to think differently, your banking hours need to change. Even businesses can face financial exclusion, and you have to address that need,” adds Surya, a former managing director of ItzCash. Lessons in adaptability from Sangharsh Nagar can also help like how a kirana store can double up as a banking counter, how a customer can use a Fino Payments Bank’s outlet to deposit cash in his Union Bank account, or like how a goatherd can also sell furniture.

Dated: Aug 11, 2019

• HDFC Bank Mulls Doubling Credit Card User Base To 25 Million This Fiscal:

HDFC Bank recently crossed the Rs 50,000 crore-mark outstanding on its credit card book, an almost 52% share of the market. India’s most valuable lender HDFC Bank is planning to double its credit card base and triple the merchant acquiring business this fiscal year, even as most banks raise concerns over rising stress in their unsecured loan book. The private-sector lender currently has a credit card base of 12.5 million and 9,00,000 unique merchants with 1.5 million acceptance points. “We have doubled our acquisition of savings and salary accounts since April; we are crossing half-a-million new current and savings accounts (CASA) customers every month, we are also acquiring more merchants. So, clearly, the opportunity for me doubles,” said Parag Rao, country head for card payments and merchant acquisitions at HDFC Bank. “I am doing the doubling without a single ounce of dilution in my credit policy.” HDFC Bank, which has a 43% share in the merchant acquiring business, is adding nearly 1,00,000 new merchants every month, with the expansion happening outside the top eight metros. “We have aggressive plans to build scale in the semi-urban and rural areas. While transactions may be less today, this is an investment phase. The plan is to open a liability relationship with merchants and then lend to them,” said Rao. The banking system’s exposure to unsecured loans has risen to an all-time high, the RBI data shows. Credit card outstanding grew to Rs 94,900 crore at the end of June,
compared to Rs 74,400 crore during the same period last year, a rise of 27.5%. HDFC Bank recently crossed the Rs 50,000 crore-mark outstanding on its credit card book, an almost 52% share of the market. The lender has increased provisioning requirements for unsecured loans, personal loans and credit cards to 150 days from 120 days. It has also slowed down lending in these segments. “Everyone in Dharavi (slum cluster in Mumbai) is not bad credit; we just have to tweak our parameters to identify good credit. Unless absolutely merited, we don’t exit a segment,” said Rao. “We keep a continuous check on segments that are becoming stressed, we slow growth and put in mitigants.” In the quarter gone by, almost all Indian banks have raised concerns over the future of unsecured loans due to a slowdown in the economy and a liquidity crunch for nonbank lenders. Banks that have pushed retail credit for more than five years due to a surge in corporate loan defaults, have built up risks in that segment by compromising underwriting standards. There is also visible sign of stress in the credit card portfolio. Portfolio at Risk (PAR) in May, or those asset classes that may see delinquency in the next 90 to 180 days, stood at 0.91%, about 8 bps higher than in March, as per data sourced from credit bureau CRIF High Mark. The PAR for outstanding credit card loans stood at 1.82%, 21 bps higher than in the same period last year. “I don’t see that consumption on a whole has slowed, it may be down in some categories. For me, the current phase is just like the correction that happens in the equities market,” said Rao.

Dated: Aug 12, 2019

**RBI To Issue Revised Norms For Housing Finance Companies:**

The Reserve Bank of India (RBI) on Tuesday said housing finance companies (HFCs) will be treated as a category of non-banks, adding, it will release a revised regulatory framework for these entities. This comes after the Finance Act, 2019 amended the National Housing Bank Act, 1987, conferring certain powers for regulation of HFCs with the Reserve Bank of India. “HFCs will henceforth be treated as one of the categories of non-banking financial companies (NBFCs) for regulatory purposes. Reserve Bank of India will carry out a review of the extant regulatory framework applicable to HFCs and come out with revised regulations in due course,” the central bank said. In the meantime, HFCs will continue to comply with the directions issued by the National Housing Bank (NHB) till the RBI issues a revised framework. Moreover, the NHB will continue to carry out supervision of HFCs and they will continue to submit various returns to NHB. The grievance redressal mechanism with regard to HFCs will also continue to be with the NHB. “A housing finance institution, which is a company, desirous of making an application for registration under sub-section 2 of section 29A of the National Housing Bank Act, 1987 (as amended by Act 23 of 2019) may approach the Department of Non-Banking Regulation, Reserve Bank of India,” the RBI said on Tuesday. In her maiden Budget speech on 5 July, finance minister Nirmala Sitharaman had proposed an amendment to Section 45-IA of the RBI Act 1934 in the Finance Bill. The amended Act empowers the central bank to supersede the board of NBFCs (other than those owned by the government) and enable resolution of financially troubled NBFCs through merger.
or splitting them into viable and non-viable units called bridge institutions. The central bank can also now remove auditors, call for audit of any group company of an NBFC and have a say over the compensation of the senior management.

Source: https://www.livemint.com/industry/banking/rbi-to-issue-revised-norms-for-housing-finance-companies-1565703509128.html
Dated: Aug 13, 2019

- **Housing Finance Companies To Be Treated As NBFCs Comes Under RBI Regulation:**

  The Reserve Bank on August 13 said housing finance companies (HFCs) will be treated as one of the categories of NBFCs for regulatory purposes and it will come under its direct oversight. The Finance (No 2) Act, 2019 (23 of 2019) has amended the National Housing Bank Act, 1987, conferring certain powers for regulation of Housing Finance Companies (HFC) with Reserve Bank of India, it said in a release. The RBI direction comes after notification issued by the central government, it added. Finance Minister Nirmala Sitharaman in her maiden Budget 2019-20 speech in early July had announced that the National Housing Bank (NHB) will not remain as the regulator for the HFCs. “HFCs will henceforth be treated as one of the categories of Non-Banking Financial Companies (NBFCs) for regulatory purposes. Reserve Bank will carry out a review of the extant regulatory framework applicable to the HFCs and come out with revised regulations in due course,” the apex bank said in the release. In the meantime, HFCs shall continue to comply with the directions and instructions issued by the National Housing Bank (NHB) till the Reserve Bank issues a revised framework, it added. “NHB will continue to carry out supervision of HFCs and HFCs will continue to submit various returns to NHB as hitherto. The grievance redressal mechanism with regard to HFCs will also continue to be with the NHB,” the RBI said.

Dated: Aug 14, 2019

- **RBI Asks Banks Not To Count Failed Transactions, Balance Enquiry As ‘Free Atm Transactions’:**

  The RBI’s clarification in this regard comes after it has come to notice of the central bank that transactions that have failed due to technical reasons, non-availability of currency in ATMs are also included in the number of free ATM transactions. The Reserve Bank on Wednesday asked banks not to count failed transactions at ATMs due to technical reasons as part of “free ATM transactions” permitted every month. Besides, use of ATMs for balance enquiry and fund transfers too should not be part of the free transactions facility given to a customer. Banks provide certain number of free transactions at ATMs to their customers and beyond that impose charges. The RBI’s clarification in this regard comes after it has come to notice of the central bank that transactions that have failed due to technical reasons, non-availability of currency in ATMs are also included in the number of free ATM transactions. “It is hereby clarified that transactions which fail on account of technical reasons like hardware and software issues, non-availability of cash, and any other reason attributable to the bank should not be counted as valid ATM transactions for the customer. “Consequently, no charges therefor shall be levied,” the Reserve Bank said. Further, non-cash withdrawal transactions (such as balance enquiry, cheque book request, payment of taxes, funds transfer), which constitute ‘on-us’ transactions (when a card is used at an
ATM of the bank which has issued the card shall also not be part of the number of free ATM transactions.


Dated: Aug 14, 2019

**Shri Jalan Panel Finalises Report, Suggests Transfer Of RBI’s Surplus In Tranches Over 3-5 Yrs:**

The Bimal Jalan committee, constituted to assess the adequate size of capital reserves that the RBI should hold, has finalised its report, sources said on Wednesday. The panel’s term was extended after the transfer of former Economic Affairs Secretary Subhash Chandra Garg to the Power Ministry. The transfer took place when the panel was in midst of finalising the report. The vacancy was filled by newly appoint Finance Secretary Rajiv Kumar for finalisation of the report. According to the sources, the recommendations have been “more or less” finalised and there will not be another meeting. “We have discussed everything. Now it is the final report. It would be difficult to tell what is the exact amount of transfer or the calculation. Transfer would be in phased manner as is the practice,” the sources said. The report would be submitted to the RBI in the next few days, they added. The six-member panel, under former RBI Governor Jalan was appointed on December 26, 2018, to review the economic capital framework (ECF) for the Reserve Bank of India (RBI) after the finance ministry wanted the central bank to follow global best practices and transfer more surplus to the government. As per various estimates, the RBI has over Rs 9 lakh crore of surplus capital with it. The surplus capital transfer would help the government meet its fiscal deficit target as it will come as a windfall to the exchequer. The government has set a fiscal deficit target of 3.3 per cent of the gross domestic product (GDP) for the current fiscal, revised downward from 3.4 per cent pegged in the Union Budget for 2019-20. Besides surplus capital transfer, the government is expecting Rs 90,000 crore dividend from the RBI in the current financial year as against Rs 68,000 crore received last fiscal. The other key members of the committee include Rakesh Mohan, former deputy governor of the RBI, as vice-chairman; Finance Secretary Rajiv Kumar; RBI Deputy Governor N S Vishwanathan; and two RBI central board members -- Bharat Doshi and Sudhir Mankad. The government and the RBI under previous governor Urjit Patel had been at loggerheads over the Rs 9-lakh crore surplus capital with the central bank. The finance ministry was of the view that the buffer of 28 per cent of gross assets maintained by the RBI is well above the global norm of around 14 per cent. Following this, the RBI board in its meeting on November 19, 2018, decided to constitute a panel to examine ECF. In the past, the issue of the ideal size of the Reserve Bank of India reserves was examined by three committees -- V Subrahmanyam in 1997, Usha Thorat in 2004 and Y H Malegam in 2013. While the Subrahmanyam panel recommended for building a 12 per cent contingency reserve, the Thorat panel suggested it should be maintained at a higher 18 per cent of the total assets of the central bank. The RBI board did not accept the recommendation of the Thorat committee and decided to continue with the recommendation of the Subrahmanyam committee. The Malegam panel said the RBI should transfer an adequate amount of its profit to the contingency reserves annually but did not ascribe any particular number.
• **Union Bank Of India To List Non Performers, Review Them Next Three Quarters:**

If non-performing assets have made banks financially weak, poor work culture and non-performance of workers have slowed down the revival of public sector banks – at least, that's what general perception is. Mumbai-based Union Bank of India has taken steps to address this issue. In an inter-office memo issued by its human resource department, the state-owned lender has directed all its regional and zonal heads to identify the non-performing employees and monitor their performance over the next three quarters. The bank said the exercise was not to penalise non-performers, but to guide them to realize their potential. “The idea is to transform the non-performers into performers, making them real assets for the bank. The bank is on a journey of transformation... to be known for responsive, responsible and inclusive banking through customer-centric business models and significant investment in employee development,” managing director Rajkiran Rai told ET. Union Bank's move follows the central government's last month's diktat to review service records of government and public sector employees to weed out the corrupt and non-performers. The lender has directed its regional heads to prepare and submit lists of non-performers by August 16. “A formal communication should be sent to all such employees to improve their performance,” the letter said. The bank would review the performance of all such employees on a periodic basis over the next three quarters. ET has reviewed the letter dated August 7, 2019. “In order to build on this momentum of achieving higher profitability and business for the bank, we need to strengthen our culture of performance in the bank,” the letter read. The bank reported Rs 225 crore net profit for the June quarter with business per employee at Rs 19.9 crore and profit per employee at Rs 20.2 lakh as on March. “We would be assessing the areas of non-performance and based on the said assessment, we would identify the factors that have led to the non-performance. If needed, we may even revisit the goal setting, if it is considered disproportionate to the potential of an area to ensure work-life parity of our employees,” Rai said, responding to a mail. A decade back, SBI took the lead in addressing non-performance of employees when the bank was losing market share to its private rivals. The bank union had appealed its members to pull up their socks and work extra hours to gain lost ground. In 2017, a zonal head of the loss-making Uco Bank had threatened to suspend salaries to employees in 11 branches for non-performance. But the management had withdrawn the note as public sector banks do not have a provision to stop salary for non-performance. Wages can be cut only in case of unauthorised absence during bank strikes.

• **RBI Clarifies On Free ATM Transactions:**

The Reserve Bank of India has told banks not to treat failed transactions at ATMs or non-cash transactions such as balance enquiries or chequebook requests as part of five free transactions available to customers every month. “It has come to our notice that transactions that have failed due to technical
reasons, non-availability of currency in ATMs, etc., are also included in the number of free ATM transactions,” RBI said in a circular to all scheduled commercial, cooperative and rural banks on Wednesday. These transactions are to be considered as failed transactions and no charges are to be levied for them. “It is hereby clarified that transactions which fail on account of technical reasons like hardware, software, communication issues; non-availability of currency notes in the ATM; and other declines ascribable directly/wholly to the bank/service provider; invalid PIN/validations; etc., shall not be counted as valid ATM transactions for the customer.” Furthermore, non-cash withdrawal transactions such as balance enquiry, cheque book request, payment of taxes, funds transfer which constitute ‘on-us’ transactions shall also not be part of the of free ATM transactions given to customers, the central bank said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-clarifies-on-free-atm-transactions/articleshow/70680201.cms

Dated: Aug 15, 2019

• India’s Payment Apps Battle To Catch China In Squeezing Out Cash:

The playing field in India’s rapidly expanding market for digital payments is poised to get more crowded as the country races to catch up with China in squeezing out the use of cash, according to the head of the South Asian nation’s payments network. That means Indians will continue to face a bewildering array of payments apps provided by Facebook Inc., Google, Amazon.com Inc. and others, in contrast to China where two home-grown technology giants dominate the market. “India will remain a multiple-player model where the consumer has a choice to continue to use his bank account, and for the last mile can use any app which he sees fit,” said Dilip Asbe, the chief executive officer of National Payments Corp. of India. “We give equal opportunities to both small and large players, unlike China,” he added in a recent interview. Asbe is confident that his country’s open payments platform will eventually allow it to catch up with China, where Ant Financial’s Alipay and Tencent Holdings’ WeChat Pay are omnipresent and have sharply reduced the use of cash for payments in the past five years or so. “China is a target where we have to reach as far as digital payments are concerned,” said Asbe. The so-called Unified Payments Interface managed by NPCI allows any firm to use an infrastructure linking all the nation’s banks to create new digital payments services quickly and cheaply. It was created three years ago as part of a drive to reduce the use of cash and bring more Indians into the financial system. It currently houses 87 apps offered by Google, PayTM and other third parties, as well as many of the nation’s lenders. Facebook’s WhatsApp payment service remains in beta mode, pending government approvals. Despite its open model and the multitude of competitors, India has a long way to go. Some 72% of India’s consumer transactions take place in cash, double the rate in China, according to a March report by Credit Suisse Group AG. Many merchants, especially in rural areas, remain unable or unwilling to accept digital transactions due to network connectivity issues and a reluctance to pay charges for what are often low-value transactions. “As a consumer I do not have the confidence to not withdraw cash, because 70% or 80% of places where I need to spend the money, digital payments are not accepted,” said Navtej Singh, the CEO of digital business at Hitachi Payment Services Ltd., which supplies automated teller machines and point-of-sale machines.
across the country. In India, digital payments have climbed more than five times since 2015 to 22.4 transactions per person in the year ended March, Reserve Bank of India figures show. That’s still way below China, where cashless transactions per capita totaled 96.7 in 2017, according to an RBI report based on Bank for International Settlements data. Despite Indian Prime Minister Narendra Modi’s shock decision to abolish high-value notes in 2016, cash as a proportion of gross domestic product has actually been rising in the past two years, hitting a three-year high of 11.3% in the year to March 2019. As it seeks to reverse this and move toward its Chinese target, the NPCI is focused on the volume of transactions, rather than the value, Asbe said. That’s because the key challenge is how to spread digital payments to rural India, where more than half of the country’s 1.3 billion people live and where the value of individual transactions is lower. Asbe wants to expand the UPI’s user base five-fold over the coming five years, to 500 million people from 100 million at present, or less than 8% of the population. The target would raise the proportion to about 38%, and bring the country closer to China, where WeChat Pay alone has 800 million users. The wide choice of payments systems and the ease with which Indians can switch between providers should allow the country to move relatively fast toward the goal, said Singh at Hitachi. But it also makes Asbe’s task more complicated. “The challenges in addressing issues regarding awareness and infrastructure are going to be like fixing a moving train,” he said.

Dated: Aug 16, 2019

• FinMin Asks PSBs To Seek Ideas From Branches To Streamline Banking Sector:

The Finance Ministry has asked public sector banks (PSBs) to initiate a month-long consultation process with officers at branch level to seek suggestions on streamlining banking sector to help the country achieve $5-trillion economy in five years. The suggestions emanating from a month-long campaign beginning Saturday will be used as inputs to prepare a road map for the future growth of the banking sector. According to a communication by the ministry to the heads of PSBs, it will be a bottom-up consultative process from the branch level onwards which will involve discussions at the branch or regional level, state level and national level. The consultation process is aimed at aligning the banking sector with national priorities, stimulating ideas and inculcating a sense of involvement among bankers at the branch level, it said. The campaign envisages not only performance review but synchronisation of banking with region-specific issues and their growth potential. It also aims to find out role of PSBs as active partners in the Indian growth story for the next five years. The country has set a goal of achieving a $5-trillion economy by 2024-25. It will also find solution for enhanced ease of living making banks more responsive to customers and challenges before banks
and their preparedness in areas such as cybersecurity and data analytics. There will be focus on raising credit offtake for supporting economic growth credit support to infrastructure and role of the banking sector in doubling farmers’ income and water conservation. Besides, supporting for green economy, improving education loan and other sectors such as micro, small and medium enterprises (MSMEs) and exports. In addition, there will be focus on pushing digital economy and financial inclusion, it said. The consultative process will be divided into three stages with the first being at the branch or regional level, followed by the state level. It will culminate with a national-level two-day brainstorming in Delhi. The campaign comes at a time when the economy is facing headwind and it has slowed to a 5-year low of 6.8 per cent. There are ominous signs showing that slowdown may be deep. The automobile sector is facing its worst crisis in two decades and reports suggest thousands of job losses in the auto and ancillary industry. In the real estate sector, the number of unsold homes has increased, while fast-moving consumer goods (FMCG) companies have reported a decline in volume growth in the first quarter. Though lending by banks to industries has shown a significant jump from 0.9 per cent in the June 2018 quarter to 6.6 per cent in the corresponding period this year, the same to job-creating MSME sector has slipped from 0.7 per cent to 0.6 per cent during the same period. However, silver lining amid gloom is improvement in non-performing assets of the banks. Last month, Finance Minister Nirmala Sitharaman told Parliament that total bad loans of commercial banks declined by Rs. 1.02 lakh crore to Rs. 9.34 lakh crore in 2018-19, on the back of steps taken by the government.

Source: https://www.livemint.com/industry/banking/finmin-asks-psbs-to-seek-ideas-from-branches-for-achieving-5-trillion-economy-1565966464810.html
Dated: Aug 16, 2019

- **PSU Banks Told To Discuss Roadmap For Industry:**

North Block has asked public sector banks to initiate a month-long consultation process with officers starting at the branch level to seek suggestions for preparing the future roadmap of the banking sector. “Branch level credit growth, non-performing assets recovery, performance of schemes such as Mudra would be reviewed,” said a person familiar with the directive. The department of financial services has also circulated papers on nine subjects including digital payments, corporate governance, MSME credit authored by Nandan Nilekani, Uday Kotak, UK Sinha and Soumya Kant Gosh. The move comes in the backdrop of a meeting held by finance minister Nirmala Sitharaman with public sector and private sector bank chiefs recently. The suggestions emanating from a monthlong campaign beginning Saturday will be used as inputs to chalk out a strategy for the future growth of the banking sector. According to a communication by the ministry to the heads of PSBs, it will be a bottom-up consultative process from the branch level onwards which will involve discussions at the branch or regional level, state and national level. The campaign envisages not only performance review but synchronization of banking with region-specific issues and their growth potential. It is aimed at aligning the banking sector with national priorities, stimulating ideas and inculcating a sense of involvement among bankers at the branch level. Consultations will seek to find solutions for enhanced ease of living, making banks more responsive to customers and challenges before them.
and their preparedness in areas such as cybersecurity and data analytics. Focus will be on raising credit offtake for supporting economic growth and credit support to infrastructure and the role of the banking sector in doubling farmers' income and water conservation. The emphasis will also be on supporting the green economy, improving education loans and other sectors such as micro, small and medium enterprises (MSMEs) and exports. In addition, the stress will be on pushing the digital economy and financial inclusion, it said. It will split into three stages with the first being at the branch or regional level, followed by the state level and culminating with a national-level two-days brainstorming in the capital.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/psu-banks-told-to-discuss-roadmap-for-industry/articleshow/70709361.cms
Dated: Aug 17, 2019

• Credit Demand Subdued, Economy Needs Stimulus, SBI Chairman Shri Rajnish Kumar:

State Bank of India (SBI) Chairman Shri Rajnish Kumar on Sunday said credit demand remains subdued and there is a need for stimulus in the economy. Though lack of credit demand exists in the economy, there is no supply-side constraint as the public sector banks are more or less well-capitalized, he said. “Demand for credit in the economy is subdued. There is a need for stimulus in the economy”, Kumar told reporters here. He was in the city to attend the multi-level consultation programme with the branch managers of SBI in the region. “There is no supply-side constraint. More or less, the public sector banks are well capitalized and bank rates also moderated,” he said. Kumar hoped that monsoon will have a positive impact. Increased spending by the government and the upcoming festival season would boost demand, Kumar added.

Dated: Aug 19, 2019

• RBI To ‘Formalize’ Linking Of Loans To External Benchmark:

Linking of new loans to an external benchmark like the central bank’s repo rate will be formalized as an economic impetus is required not just from monetary policy assistance but also through transmission of rates, said Shaktikanta Das, governor Reserve Bank of India (RBI). Das, however, did not clarify if formalization would mean that RBI will issue guidelines on this. “I think the time has now come to formalize the linking of the lending rates on new loans to external benchmarks like the repo rate. We are monitoring the developments in this regard and whatever steps are required in the coming weeks, will be taken by RBI,” said Das, speaking at FIBAC, a banking conclave organized by the Indian Banks’ Association (IBA) and industry body FICCI. In December, the central bank had said banks must set their interest rates for new loans against an external benchmark beginning 1 April. The new rule was supposed to apply to all new retail loans and small business loans with floating rates. However, the decision was met with a lot of resistance from bankers, who wrote to the regulator—then under the governorship of Urjit Patel—in 2018, citing concerns. Following which, in April, Das postponed the move and said RBI will hold consultations with stakeholders on it. Currently, banks price their loans against their marginal cost of funds-based lending rate (MCLR). “We have kept the external benchmark (guidelines) in abeyance
because we wanted to see how the market evolves. It is a positive trend that the banks have responded but this process needs to be faster,” he said. The governor said as against a repo rate cut of 75 bps by RBI (excluding the 35 bps cut in August) in 2019, the transmission was 29 bps and it was certainly not up to RBI’s expectations. “It (transmission) should be, and can be better,” he said. He added that since the last meeting of the monetary policy committee (MPC), many banks have announced initiatives to link their new loans to the repo rate. “Our expectation is that they should move faster,” said Das. The RBI, he said, was constantly engaged with banks with regard to faster and greater transmission of monetary policy rates. “The RBI will definitely pay its role as the regulator to work with the banks to see the trends in the market and take steps that can formalize these linking of new loans to repo rate or other external benchmarks,” he said. The way banks set interest rates is critical for the smooth transmission of policy rates. To make this process transparent, RBI has, over the years, directed banks to price their loans against their benchmark prime lending rate (BPLR), base rate, and, finally, MCLR. Last year, though, was the first time that banks have been asked to price their loans against an external benchmark.

Dated: Aug 19, 2019

• Public Sector Banks Explore Northeast India Centric Products:

State Bank Of India, Union Bank of India, Central Bank of India, Canara Bank and Punjab National Bank is having series of meeting on bottom-up consultative process from the branch level. Kalyan Kumar, General Manager of Union Bank of India, Central office Mumbai who was in Guwahati on Sunday said, “We deliberated on Northeast India centric products targeting fishery, poultry, organic farming, arts and crafts, silk, women self-help groups and women entrepreneurship.” He added, “We will assist entrepreneurs with capacity building besides financing. Some constrains pointed by the mangers includes lack of skill among the entrepreneurs, lack of co-ordinations between different agencies, need for land reforms and digital record of land.” After the regional level discussion the bankers will discuss the same in the state level and national level forum. Barun Kumar, Deputy General Manager of Union Bank of India said, “For some constrains intervention of government and in some intervention of National bank for agriculture & rural development (NABARD) will be required.” General Manager of State Bank of India, Sudhir Kumar Sharma said that in the two day meeting local economy was discussed. “Ideas were discussed which can boost up local economy.” He added, “The meeting was to identify and finalise ways and means to increase credit to various sectors of the economy, enhance use of technology to bring about innovation and enable big data analytics, make banking citizen centric and enabling bank credit towards $5 Trillion economy.” Sharma said, “The consultative process has resulted in a renewed sense of involvement and purposes down to the branch level and the bank is geared towards implementing the road map for the further, improve its performance and align it to the national priorities so that it may fulfill its mandate of partnering the Indian growth story.”

Dated: Aug 19, 2019
**SBI Chairman Rajnish Kumar Says 59-Minutes Loan Scheme Yet To Make A Mark:**

State Bank chairman Rajnish Kumar on Monday said small business owners are not enthused with the 59-minute loans scheme launched by government late last year. Despite, the tepid response, the bank, however, is planning to extend the scheme to auto buyers, especially car loans, Kumar said. He said a businessman having turnover of up to Rs 25 crore can get an in-principle approval for a loan of up to Rs 5 crore within 59 minutes under the scheme launched by Prime Minister Narendra Modi last November. “The platform should have been very successful, but I think the awareness about it is yet to reach the targeted audience, that is MSMEs,” Kumar told the annual banking conference Fibac. He said up to 90 percent of MSMEs, which are called the backbone of the economy because of employing the maximum number of people, can get loans under the scheme. “It can become a very powerful platform, the only thing is lack of awareness,” he reiterated.

The chairman of the country’s largest lender said the algorithm analyses the inputs like GST payments, income tax payments and the cash-flow statements while making a decision on the amount of loans a borrower is eligible for. Kumar said the bank is also planning to extend the scheme to car and auto loans because all the loans in this category are in the same quantum. An apparent reference to the fear among bankers to sanction loans because all the loans in this category are in the same quantum. In an apparent reference to the fear among bankers to sanction loans because of being held accountable in the future, Kumar said he has given instructions down the hierarchy that no one will be held accountable for decisions done by the algorithm. He said the bank staff should do post-sanction monitoring, documentation and disbursal alone.

According to a recent media report, since the launch of the 59-minute loan scheme by public sector banks, 50,706 loan proposals were given in-principle approvals of which 27,893 loans were sanctioned as of end March 2019. Addressing the same event Amitabh Chaudhry, the managing director and chief executive of the third largest lender Axis Bank also discounted the so-called growth in MSME loans saying the incremental lending is not actual lending helping the economy but banks buying out stressed assets. “What constitutes as SME loan growth for banks is coming from the buyout of portfolios from stressed financiers and must not be construed as a sign of the economy benefitting as this is not fresh lending,” he said.


**Dated: Aug 19, 2019**

**Hours After RBI Call, Axis Bank Says Linking Loans To Repo Rate Is Not The Only Way For Faster Transmission:**

Even as governor Shaktikanta Das pitched for a system-wide adoption of repo-linked pricing of loans and deposits, private sector lender Axis Bank Monday said it is not the only measure for better transmission of central bank’s policy moves. The third-largest private sector lender’s executive director for corporate lending Rajiv Anand blamed liquidity issues prevented banks cutting the lending rates till June and that with better liquidity conditions since then, banks have been passing on the benefits of the RBI rate cuts. With the further easing in liquidity conditions as seen in the recent days through the excess availability of Rs 2 trillion per day, banks will do more rate cuts, Anand said. “It’s not necessary to
use only external benchmarks, there are multiple avenues to meet the requirement that the RBI wants us to do... What RBI is essentially looking at is that the rates are being cut and there should be better transmission,” he said. Anand was speaking to reporters on the sidelines of the annual industry conference Fibac, hours after Das made the suggestion that the time has come to formalise the external benchmark or repo-linked system for new loans, which will ensure faster transmission of rates. The comments come at a time when pushing up the sagging economic growth has become the biggest focus for the policymakers, which has ensured rate cuts of 110 bps by the RBI in four simultaneous rate cuts. Anand also flagged the risks of such a move of linking interest rate to the repo rate set by RBI for the customers. “Remember that repo rates typically will be more volatile than MCLR for example,” he said, speaking in support of the present marginal cost of funding based lending rate being followed at present. “Generally, we’ve seen that retail customers, when the rates are falling, they want to see faster transmission but remember that faster transmission will happen on the way up as well,” he said. Anand said the retail customers do not wish for volatilities in their loan pricing and hence, such linkage will be more useful for the corporate borrowers. “As long as banks are able to meet the requirement as to transmit faster, I think there are multiple roads to achieve that,” he said. It can be noted that market leader SBI has been the first to move by linking its loan pricing to newer borrowers to the repo rate, while its closest rival Bank of Baroda has also followed suit. State-run PNB managing director Sunil Mehta told reporters that the lender will also be making a shift in the next seven days and added that there is adequate liquidity in the system. Declining to spell out whether his bank is planning to offer repo linked loans, Anand said Axis Bank’s asset liability committee will take a call on the same. To a question about the fate of existing borrowers, and if they also get to enjoy the benefits of lower repo rates, SBI chairman Rajnish Kumar said all of it will depend on how soon the banks are able to reprice its old liabilities, but declined to give a timeline for the same. It can be noted that till the last rate cut of 0.35 percent, the banks have passed out only 0.29 percent of the 0.75 percent in rate cuts initiated by the RBI to the final borrowers. However, RBI’s last cut delivered earlier this month has led to a rash of rate cuts by the lenders by up to 0.10 percent.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/hours-after-rbi-call-axis-bank-says-linking-loans-to-repo-rate-is-not-the-only-way-for-faster-transmission/articleshow/70744113.cms
Dated: Aug 19, 2019

• NBFC Loan Growth In Negative Zone:

In further trouble for non-bank lenders, their loan growth slipped into negative territory with a de-growth of nearly 2% in the quarter ended June 30 and a year-on-year growth of 11%, according to an analysis by Credit Suisse. “Moderation in vehicle loans in the face of a slowdown in the auto sector and increased caution appear to be the prime reasons,” said Ashish Gupta, Research Analyst with Credit Suisse. “Wholesale loans at NBFCs though have started to deteriorate and as much as 10-11% of these turning NPA at some NBFCs.” While RBI has maintained system-level liquidity surplus over the last two months, risk aversion among banks and bond markets continued the credit crunch for non-bank lenders. “For NBFCs, even as aggregate liquidity has turned surplus, bond markets have continued to differentiate in
their willingness to fund them,” the report said. NBFCs are facing severe liquidity squeeze after the collapse of infrastructure financier IL&FS in August last year. Since then repayment worries have engulfed companies like the Zee Group, DHFL and the ADAG group. Private banks too showed signs of slowdown in credit with advances slipping to 15% YoY and a meager 1% QoQ, even as deposit growth picked up, the report added. On the asset quality front, gross non-performing loans remained flat at 9.6% versus 9.5% in the last quarter of financial year 2019, as higher non-corporate slippages due to seasonal effects offset moderation in corporate slippages.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/nbfc-loan-growth-in-negative-zone/articleshow/70746911.cms
Dated: Aug 20, 2019

**Route To $5 Trillion Facing Headwinds, Bank CEOs:**

India’s aspiration to become a $5-trillion economy is facing headwinds because of slower loan demand and higher NPAs (non-performing assets) in certain sectors such as small and medium enterprises (SMEs) which have to be addressed, bank CEOs said at the FICCI-IBA banking conference on Monday. In a panel discussion that included CEOs from State Bank of India (SBI), Punjab National Bank (PNB), Axis Bank, Standard Chartered Bank, Citibank and Bandhan Bank, banking executives said though there are opportunities in some segments of the economy, the aim to make India a $5-trillion economy will need a lot more effort. The bankers were speaking just after Reserve Bank of India (RBI) governor Shaktikanta Das urged the bankers and businessman to shun negativity and not just look at the problem, but the opportunities that lie ahead. “The $5-trillion target will require a lot of effort. There is a slowdown in some sectors and the pace of growth of credit is low. Today, the total credit of the banking system is at Rs 98 lakh crore and we need it to be at Rs 188 lakh crore if we have to become a $5-trillion economy. That means we have to grow by 20% each year to achieve that target,” said Sunil Mehta, CEO of Punjab National Bank. Bankers said that though there are opportunities, banks have to be cautious and also factor in the impact on their stakeholders. “Data points indicate that things are getting tougher. Sales are down and stress is increasing which make me cautious as a banker. There are opportunities but we have to also manage the interest of our shareholders and boards,” said Amitabh Chaudhry, CEO at Axis Bank. Chaudhry further said that the current growth in loans is coming largely from banks buying portfolios which are attractive and not because of new loans which will contribute to the economy. However, the CEOs acknowledged that new uses of technology such as data analytics will help delivery of credit faster and to a wider audience. “We at SBI can give Rs 1 lakh to Rs 5 crore loan sanctions through online channels. By using data from GST, ITR and bank account statements, we can assess credit and disburse loans. It is a very powerful tool. Now we can disburse loans up to Rs 5 crore which can be useful for companies with a turnover of up to Rs 25 crore which are 90% of SMEs,” SBI chairman Rajnish Kumar said. Bandhan
Bank CEO CS Ghosh, however, cautioned that in looking to reduce costs by pushing loans through the online medium, banks have to be careful as to not lose sight of the customers which may lead to higher NPAs in the future. Bank CEOs expressed hope that government-led infrastructure projects such as Bharatmala and Sagarmala together with automation and digitization will improve the turnaround time. “We also need to encourage private investments and issues in the auto, real estate and NBFC sectors need to be addressed,” PNB’s Mehta said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/route-to-5-trillion-facing-headwindsbank-ceos/articleshow/70749276.cms
Dated: Aug 20, 2019

- **Banks Board Bureau Invites Applications For Top Posts Of 4 Big PSU Banks:**

The Banks Board Bureau, the headhunter for state-run banks, has invited applications for the posts of Managing Director and Chief Executive Officer at four major public sector banks, including Bank of Baroda and Punjab National Bank. The headhunter last week had issued public notices inviting applications for the top posts in Punjab National Bank and Bank of India but on Monday it broaden the exercise to include Bank of Baroda and Canara Bank. The post of MD and CEO at Bank of Baroda and Canara Bank will fall vacant in October and January, respectively. The post of MD and CEO in PNB will fall vacant after incumbent Sunil Mehta superannuates on September 30. The post in Bank of India is lying vacant since July 1 after Dinbandhu Mohapatra retired. As per the Banks Board Bureau’s (BBB) recruitment notice, candidates including from the private sector can apply for the vacancies at the four banks till September 23. The appointments will be for three years. “To help assess the leadership competencies and potential capabilities of shortlisted candidates an advisory firm may assist the Banks Board Bureau. “The advisory firm will have no role in shortlisting. Shortlisted applicants will appear for interactions with the Bureau,” the notice said. Based on the interactions, the BBB said it will send its recommendation to the government. PNB was hit by a massive fraud amounting to about Rs 14,000 after it came to light that jewellery designer Nirav Modi and his uncle Mehul Choksi fraudulently siphoned off the money in connivance with some officials of the bank. BoI was in the Prompt Corrective Action framework, but the RBI lifted the curbs in January this year after it met the regulatory norms including Capital Conservation Buffer (CCB) and net NPAs of less than 6 per cent as per third-quarter results.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/banks-board-bureau-invites-applications-for-top-posts-of-4-big-psu-banks/articleshow/70753831.cms
Dated: Aug 20, 2019

- **PSBs To Suggest Steps To Boost Economy:**

In a bid to shield India Inc from the headwinds emanating from the ongoing general economic slowdown, the Central government has asked Public Sector Banks (PSB) to recommend ways to prop up growth. At present, a culmination of factors such as high GST rates, natural calamities, subdued farm produce prices, stagnant income levels and low job generation have led to the slowdown. Various sectors are facing a sales downturn. Industries such as FMCG and automobile have been hit the hardest. In case of the auto sector, the industry recorded an overall decline of 18.71 per cent in off-take for July, the highest monthly sales de-growth in the last 19 years. As per SIAM figures, domestic passenger car sales in July plunged by 35.95 per cent to 122,956 units
against 191,979 units sold in July 2018. Not just the main sectors, the slowdown pain has now percolated to small businesses which supply raw materials and parts to bigger industries. Accordingly, the PSBs-led by lending major SBI have been directed to analyze the ‘ground-level’ economic and demand situation. “We have several thousand bank branches across the country. All of them have submitted their assessment of the ground-level demand situation. Their assessment is necessary as they deal directly with the MSMEs. Now state-level meetings are going on and this will be followed by our final recommendations to the government by the first week of September,” a senior public sector bank official told IANS in New Delhi. “We expect that by the first week of the coming month, we will be able to submit the ground-level assessment report to the government, highlighting key areas of concerns and possible steps to prop-up growth.” Over 1 lakh bank branches under the PSBs have been activated to assess the ground-level situation. “We have conducted meetings with our bank managers over their assessment of the situation... Overall, 80 per cent of such meetings are over, however, due to flood situation in certain areas, some assessment reports are yet to reach us,” another official with a state-run bank in Mumbai said. Nonetheless, both the top-level banking sources, confirmed that there was no stimulus package in works coming from the PSBs' side. “Certain norms regarding repayment of loans by sectors such as a MSMEs, and other might be implemented. But there is no stimulus coming from the PSBs’ side as of now,” the second PSB official located in Mumbai said. Recently, industry representatives have met to apprise her of the grim situation. This was followed by a state-of-the-economy review by the Prime Minister on August 15 with Finance Ministry officials. Subsequently, speculation had risen regarding government's plans for a stimulus package for India Inc. “You need to understand ground level realities before going in for any package,” one of the bankers earlier quoted said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/ slowdown-slayer-psbs-to-suggest-steps-to-boost-economy/articleshow/70764061.cms

Dated: Aug 21, 2019

• SBI Plans To Establish Nearly 10 Lakh YONO Cash Points:

State Bank of India, the country's largest lender, is planning to establish nearly 10 lakh YONO Cash Points in the country over 18 months, said its Chairman Rajnish Kumar on Wednesday. The platform is secure and will eliminate the requirement of using debit cards, Kumar said. “A customer can make bill payments and can do digital transactions by using the YONO cash feature. We are considering establishing close to 10 lakh YONO Cash Points in 18 months. Nearly 70,000 Cash Points have already been established,” he said at a press conference here. The bank has no plans to discontinue debit cards but increased use of the digital platform will itself reduce the requirement of the debit cards, he said. YONO is a digital banking platform of State Bank of India (SBI) and customers can use it on their smartphones to withdraw cash, make transactions and payments. He added that the bank's new offer about repo rate-linked home loan is getting good response from customers. It is the customers' choice either to go with the new product or with the MCLR-linked home loan, Kumar added. Talking about the slowdown in the automobile sector, he said there are certain trends in the market and they need to be analysed. “It is an apparent global trend now that people
are shifting from vehicle ownership to vehicle rental model due to several reasons like uncertainty of jobs and convenience. The trend should be analysed to figure out how much it is impacting the automobile industry,” he said. He also said there was a need to look into the agriculture sector in order to make it commercially viable sector. “Due to issues in productivity, it sometimes becomes difficult for farmers to repay the loan. The government takes decision for loan waiver but despite the loan waiver, the condition of farmers does not improve, therefore, it should be looked into to ensure that the sector becomes commercially viable and the condition of farmers also improves,” he said. The banker also highlighted the advantages of YONO app for the agriculture sector. He said fertilisers, seeds, agriculture tools and equipments can be purchased on reasonable price by using YONO Mandi app.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-plans-to-establish-nearly-10-lakh-yono-cash-points/articleshow/70769992.cms

Dated: Aug 21, 2019

• Second Leg Of Ideation Exercise For PSU Banks To Begin From Thursday:

Public sector banks will embark on second round of two-day bottom-up ideation exercise beginning Thursday for further streamlining the banking sector to help the nation become a USD 5 trillion economy in five years. The second leg of the month-long campaign will be inter-bank and will be held at state-level as per the direction of Department of Financial Services, Ministry of Finance. The first round was focussed at branch level and suggestions and ideas received from there will now be discussed at the state level from tomorrow, official sources said. Meetings will be held at 30 places, mostly in the state capitals, and will see participation from middle level management. They will deliberate on the issues and concerns being faced by various banks along with performance review, sources said, adding that they will also come up with ideas and suggestions for preparing a road map for the future growth of banking sector. The move by the finance ministry is aimed at reinvigorating the sagging economy in which the banking sector has an important role to play, especially in boosting consumption through higher credit flow to the productive sectors. Nine thematic papers by domain experts on various challenges facing the banking sector will be discussed during the meet with a view to suggest reforms in public sector banks (PSBs). These themes include increasing digital payments, credit for India’s MSMEs, agriculture credit, export credit in India and need to establish financial grid. The consultation process is aimed at aligning the banking sector with national priorities, stimulating ideas and inculcating a sense of involvement among bankers at the branch level, it said. The campaign envisages not only performance review but also synchronisation of banking with region-specific issues and their growth potential. It also aims to find out role of PSBs as active partners in the Indian growth story for the next five years. The country has set a goal of achieving a USD 5 trillion economy by 2024-25. It will also find solution for enhanced ease of living, making banks more responsive to customers and challenges before banks and their preparedness in areas such as cybersecurity and data analytics. The campaign comes at a time when the economy is facing headwind and the growth has slowed to a five-year low of 6.8 per cent. There are ominous signs showing that the slowdown may be deep. The automobile sector is facing its worst crisis in two decades and reports suggest thousands of job losses
in the auto and ancillary industry. In the real estate sector, the number of unsold homes has increased, while fast-moving consumer goods (FMCG) companies have reported a decline in volume growth in the first quarter. Though lending by banks to industries has shown a significant jump from 0.9 per cent in June 2018 quarter to 6.6 per cent in the corresponding period this year, the same to job-creating MSME sector has slipped from 0.7 per cent to 0.6 per cent during the same period. However, improvement in non-performing assets of the banks is the silver lining amid the gloom. Last month, Finance Minister Nirmala Sitharaman told Parliament that total bad loans of commercial banks declined by Rs 1.02 lakh crore to Rs 9.34 lakh crore in 2018-19 on the back of steps taken by the government.

Dated: Aug 21, 2019

• RBI Allows Recurring Transactions UptoRs 2,000 On Cards:

The Reserve Bank of India will allow customers to make recurring payments of less than Rs.2000 without the two factor authentication process by giving an e-mandate from September. Keeping in view the changing payment needs and the requirement to balance the safety and security of card transactions with customer convenience, it has been decided to permit processing of e-mandate on cards for recurring transactions (merchant payments)...” RBI said in a circular on Wednesday. The move has been made to make digital payments to merchant, typically at kirana and grocery stores where ticket sizes are small, more convenient. “This circular is applicable for transactions performed using all types of cards – debit, credit and Prepaid Payment Instruments (PPIs), including wallets,” the central bank said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-allows-emandates-on-cards-for-recurring-transactions/articleshow/70775162.cms
Dated: Aug 22, 2019

• Shadow Bank Crackdown Accelerates In India Amid Cash Squeeze:

India is stamping out shadow financiers at the fastest pace in recent years, in the latest blow to a beleaguered sector battling a prolonged funding crunch due to rising wariness toward it in the nation’s credit markets. The central bank canceled registrations of 1,851 non-bank finance companies in the year ended March 31, more than 8 times those in the previous year, according to data received from the Reserve Bank of India in response to a Right to Information request. The number of lenders dropped to about 9,700, the lowest in at least a decade, as a result. Firms may be failing to secure the minimum funds needed to operate due to the cash crunch. “RBI canceled permits of these NBFCs as they couldn’t raise even 20 million rupees” to meet regulatory requirements, said Mahesh Thakkar, director general at Finance Industry Development Council. The lobbying body for the financiers had been demanding a liquidity window for NBFCs through banks as a lifeline. The perils in the sector highlighted by missed repayments on dues by Dewan Housing Finance Corp. and Reliance Home Finance Ltd. in recent months have heightened risk-off sentiment and worsened the lenders’ access to domestic money markets. RBI has also tightened regulations this year by...
putting in place rules requiring shadow lenders to appoint a chief risk officer and proposing stringent liquidity requirements. The government plans to bolster the central bank’s authority over shadow lenders and has transferred the regulation of housing finance companies to the RBI from National Housing Bank last month. RBI is already working closely with shadow banks after detecting signs of fragility in some of the 50 housing finance and other non-bank lenders it’s monitoring.

Dated: Aug 22, 2019

• Bandhan Bank Teams Up With Standard Chartered Bank For A Co-Branded Credit Card:

What started as a micro finance institution lending to economically challenged self employed women is taking a giant leap into unsecured credit card business with a multi national bank. Bandhan Bank, completing four years into banking, has teamed up with Standard Chartered Bank to launch a co-branded credit card. The credit card will be for Bandhan Bank customers while the credit risk will be borne by StanChart, one of the leaders in the credit card market with 1.2 million credit card base. This is StanChart’s first co-branded card with another bank. StanChart chief executive ZarinDaruwala said, “We wanted to partner with a growing bank,” she said. Bandhan Bank has 1.74 crore customers including 40 lakh bank branch customers, who will be tapped for credit cards. Micro loans accounts for about 85% of Bandhan’s business till today. Expansion of product offering boost customer stickiness, said Bandhan Bank Managing Director Chandra Shekhar Ghosh. “Two good brands have come together to make a better value proposition. We will market the card through our 1000 branches,” Ghosh said. Daruwala said that its credit card business is seen 15-20% growth annually. She said that SanChart has not witnessed any impact of the slowing economy on this unsecured business or other retail businesses.

Dated: Aug 23, 2019

• Govt Announces Capital Infusion Of Rs 70,000 Crore In State-Run Banks:

In a move aimed at improving the liquidity squeeze and boost lending, the finance minister Nirmala Sitharaman on Friday announced upfront capital infusion of Rs 70,000 crore in state-run banks. This is expected to generate an additional lending and liquidity in the financial system to the tune of Rs 5 lakh crore, she said at a press conference. The latest infusion in public-sector banks will happen by way of recapitalisation bonds. The finance minister further said that banks have decided to pass on RBI rate cut benefits to borrowers through MCLR reduction. While the RBI has cut rates by a total 110 basis points
since February, the pass through has been less than desirable, forcing even the RBI Governor Shaktikanta Das, to seek help from banks to boost growth. “This should help stir positivity and gradually bring back animal spirits. The steps taken to infuse liquidity in the banking and NBFC sector should help alleviate stress in the system and set in motion the recovery process,” Ashish Shanker, Head- Investment Advisory, Motilal Oswal Private Wealth Management.

The latest budgeted infusion into state banks is below the Rs 1.06 lakh crore injected in the previous fiscal year, and the Rs 88,139 crore in FY18. The government has infused Rs 2.5 lakh crore in state-run banks since FY15, but for many the capital ratios have remained alarmingly low. Banks will also launch repo rate and external benchmark-linked loan products that will lead to reduced easy monthly instalments for housing, vehicle and other retail loans. “Working capital loans for the industry will also become cheaper,” Sitharaman said. The minister also said that the Central Vigilance Commission had directed the Internal Advisory Committee within banks to categorise cases as vigilance and non-vigilance to ease fear of decision making and support genuine commercial decisions by lenders. Addressing India’s economic slowdown in the Indian economy and awakening the animal spirits is the primary challenge for Prime Minister Narendra Modi who got re-elected with a thumping majority. Equity markets have lost over Rs 15 lakh crores since the Union budget announced on July 5 which led to an increased clamour for a stimulus package. “Finance Minister has aimed at restoring confidence and tackle the challenges of weak demand,” Garima Kapoor, Economist, Elara Capital. “Quicker transmission of rate cuts, faster recapitalisation of banks and external benchmarking of rates are likely to aid credit off take. Recognition of issues in the economy and the measures to address them will help to ease concerns on growth slowdown.” The Indian economy which grew at its slowest pace in almost five years, lost the tag of the fastest growing major economy with unemployment rates falling drastically and fresh investment plunging to multi-year lows. The NBFC crisis lies at the heart of the current slump, with fund squeeze paralysing industries ranging from automobile, real sector and the consumption sector.


Dated: Aug 23, 2019

• CVC Sets Up Panel To Examine Bank Fraud Above Rs 50 Cr:

The Central Vigilance Commission (CVC) has constituted Advisory Board for Banking Frauds (ABBF) headed by former Vigilance Commissioner T M Bhasin to examine bank fraud over Rs 50 crore and recommend action. The panel in its previous avatar called the Advisory Board on Bank, Commercial and Financial Frauds. The ABBF, formed in consultation with the RBI, would function as the first level of examination of all large fraud cases before recommendations or references are made to the investigative agencies by the respective public sector banks (PSBs), CVC said in an order. The four-member board’s jurisdiction would be confined to those cases involving the level of officers of General Manager and above in the PSB in respect of an allegation of a fraud in a borrowal account, it said. Lenders would refer all large fraud cases above Rs 50 crore to the board and on receipt of its recommendation or advice, the bank concerned would take further action in such matter, it said. “Central Bureau of Investigation (CBI) may also refer any case
or matter to the board where it has any issue or difficulty or in technical matters with the PSB concerned,” it said. Other members of the panel are Madhusudan Prasad - former Urban Development Secretary, D K Pathak - former Director General of the Border Security Force and Suresh N Patel - former MD and CEO of Andhra Bank. The tenure of the Chairman and members would be for a period of two years from August 21, 2019, the order said. It further said the board will also periodically carry out frauds analysis in the financial system and give inputs for policy formulation related to the fraud to the RBI. Headquartered in Delhi, the Reserve Bank of India will provide required secretarial services, logistic and analytical support along with the necessary funding to the board. In a bid to check such incidences, the government has already issued the ‘framework for timely detection, reporting, and investigation relating to large-value bank frauds’ to PSBs, which makes it clear that all accounts exceeding Rs 50 crore, if classified as an NPA, should be examined by banks from the angle of possible fraud, and a report be placed before the bank’s Committee for Review of NPAs based on the findings of the investigation. Besides, the PSBs have been advised to obtain a certified copy of the passport of promoters/directors and other authorized signatories of companies taking loan facilities of more than Rs 50 crore.

Dated: Aug 25, 2019

- **Banks Suggest Easier Loan Rules For Farmers:**

Public sector banks may ask the government to allow farmers to borrow afresh even before clearing previous loans. This is one of the key takeaways from a branch level consultation exercise that has been going on for the past one week. Banks are collating inputs from grassroots employees, refining them and are likely to hand over the suggestions to the government in the first week of September, when Prime Minister Narendra Modi is set to hold a meeting with public sector banks. Banks are also seeking a more robust loan guarantee structure for Mudra loans, while they feel an umbrella cyber security framework would help, rather than each lender attempting to do it individually. “The major concern area for the government has been the falling market share of public sector banks. The exercise would also help in an image makeover for public sector banks,” said Ashok Kumar Pradhan, chief executive, United Bank of India. He said the fresh proposal on farm loans would help farmers de-stress and gain access to funds even during natural calamities. Currently, farmers are not permitted to avail fresh loans before clearing past dues. Farm loan stress has risen to double digits, and fresh loans under Kisan Credit Cards may be one way out, banks feel. As per the suggestion, farmers may get bank funds even if they are not in a position to repay earlier loans, but are able to service the loans by making interest payments, Pradhan said at the state-level inter-bank group consultation in Kolkata on Friday. A credit guarantee scheme for agri loans can also improve credit flow to the sector, said State Bank of India’s regional head Ranjan Kumar Mishra.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/banks-suggest-easier-loan-rules-for-farmers/articleshow/70813157.cms
Dated: Aug 26, 2019

- **Bank Of Maharashtra To Link Retail Loans With Repo Rate:**

State-owned Bank of Maharashtra (BoM) on
Sunday said it will link its retail loans with the repo rate, which will make the loans cheaper. “It will be effective from September 1, 2019 for the ensuing festival season. Presently, it will be for new customers only and in due course it will be extended to existing customers as well,” it said in a statement. The bank has already linked the housing loan interest rate with repo rate, it added. Through linking of repo rate to retail loans, the bank is passing interest rate benefits directly to the customers and it will make the retail loans cheaper, it said. Announcing a slew of measures to boost growth, Finance Minister Nirmala Sitharaman on Friday said that banks will launch repo rate and external benchmark-linked loan products that will lead to reduced EMIs for housing, vehicle and other retail loans. Meanwhile, in another statement, BoM said recently 18 public sector banks had come together in Pune as part of the second round of the ideation exercise to further streamline the banking sector as part of the government’s efforts to make India a USD 5-trillion economy in five years. The inter-bank meeting, held under the aegis of the State Level Bankers’ Committee (SLBC), was organised by BoM, convenor, SLBC, Maharashtra State. A S Rajeev, managing director and CEO of BoM, said the first stage of the bottom-up consultation process designed to generate ideas and review performance of banks and their alignment with national priorities was conducted on August 17 and 18. This was a first of its kind consultation, where the branches were asked to review their performance, deliberate on the issues before the banking sector and suggest future strategies for the economy to reach USD 5 trillion by 2024-25. The consultations during the two days generated a number of implementable and innovative suggestions, which will be collated and presented during the national level consultation meet, the statement added.


Dated: Aug 26, 2019

- **Bank Of Baroda To Buy Around Rs 6,000 Crore Of Securitized NBFC Loans In Q2:**

Second largest state-run lender Bank of Baroda is looking to buy out assets worth around Rs 6,000 crore from the fund-starved non-banking finance companies this quarter, a senior bank official said Monday. The lender had already bought around Rs 3,500 crore loans from NBFCs in the June quarter, while for the year March 2019, it had purchased assets worth around Rs 10,000 crore from NBFCs/housing finance companies. “We are expecting to do around Rs 6,000 crore (asset purchases under direct assignment) this quarter,” executive director Papia Sengupta told reporters here. The bank is in discussions with NBFCs/HFCs such as PNB Housing Finance, Indiabulls Consumer Finance, IIFL, Annapoorna MFI among others for this, an official said. Sengupta said some of the assets would be bought under the partial guarantee scheme for which lender will obtain permission from the government. In the budget, the government had said it would provide a one-time six months’ partial credit guarantee to public sector banks for the first loss of up to 10 percent on their purchases of high-rated pooled NBFC assets, amounting to Rs 1 trillion. The lender is also targeting to disburse Rs 1,000 crore under the Reserve Bank’s recently introduced co-origination model between banks and non-banking financial companies, this quarter and has already lent Rs 50 crore to Srei Finance and Edelweiss
Financial. The bank is also in talks with 10 more NBFCs and micro-finance companies, including Cholamandalam, Indiabulls Housing, Adani Capital, IIFL Finance, Hero Housing, and Centrum Housing, among others for this. “While we have already started co-origination of loans, it will take around two to three months to reach a scale. This quarter we are looking at Rs 1,000 crore of loans under this scheme,” Sengupta said, adding the rate offered to these customers will be a blended one NBFCs. “It will be win-win for customers as we will be offering a rate what we charge to our customers,” she said. The bank will be looking at various segments like SMEs, housing, loan against property under the scheme. Sengupta said RBI has clarified that co-origination of loans is not only for creating priority sector assets but also for non-priority sectors. “The first thing that comes is it is for priority sector but RBI has never said it is not available for non-priority sectors. In fact, our policy is covering both priority and non-priority sectors and when we asked for a clarification RBI said very clearly that it nowhere bars us, from taking it for non-priority sector,” she added. The lender is also looking at onward lending of Rs 3,500 crore to corporate and agri-finance in the quarter. The BoB counter closed 1.71 percent Rs 95.05 on the BSE while the benchmark rallied close 2.2 percent.


Dated: Aug 26, 2019

• Deutsche Bank, Reeling From Global Job Cuts, Is Hiring In India:

Deutsche Bank AG’s only retail banking franchise outside Europe is getting more investment, amid sweeping cost cuts and restructuring taking place elsewhere at the German lender. After receiving a 470 million euro ($520 million) capital injection earlier this year, Deutsche Bank’s Indian operation is set to hire about 140 people and boost its retail banking and wealth management operations. “The India franchise is given the mandate to expand, as this is a growth market and everyone has high expectations from this country,” said Amit Bhatia, the bank’s India head of private and commercial clients. “Plans are on for aggressive growth, and we have been assured that capital is not going to be a concern,” Bhatia added in a recent interview. The ambitions for India reflect Deutsche Bank’s wider focus on retail banking and wealth management as it pursues the sweeping restructuring unveiled by Chief Executive Officer Christian Sewing earlier this year, involving the loss of 18,000 jobs and a plan to reduce costs by about a quarter. Some of the heaviest cuts are falling on investment banking and trading, and all new hiring requires approval from Sewing. In India, Deutsche Bank has received approval to add 120 people in retail banking plus 19 relationship managers for its local wealth business, its biggest bout of hiring in the country in several years, a spokesman for the lender said. Helped by the recent capital injection, it will boost loan sizes to corporate clients, launch a discretionary portfolio management service and bolster digital banking channels, the spokesman added. However, India isn’t immune to the wider cost cutting. Earlier this year the German lender let go more than 20 people in India as part of its global move to withdraw from equity sales and trading. The retail business in India is focused on mortgage lending and loans to small businesses, also the source of many of the bank’s wealth clients. Profit before tax in India rose 19% to 363 million euros last year, as the lender kept bad loans and costs under check, filings show. That was
well over half the total pretax profit in Asia of 609 million euros. With a net interest margin in India of about 3 percentage points, the bank sees an opportunity to increase profit by boosting its loan book, Bhatia said. The hiring and growth plans also mark the end of a period of uncertainty while Deutsche Bank was considering a sale of its local wealth and retail operations to IndusInd Bank Ltd. Those plans were abandoned in 2018 after the German bank decided the price on offer didn’t justify selling the business, people familiar with the matter said last year. Assets under management in the Indian private banking business now stand at around 170 billion rupees ($2.3 billion), up by 20 billion rupees since October, after remaining steady for the previous two years, said Atinkumar Saha, who heads the wealth operation. Deutsche Bank has singled out wealth as a priority area in other countries, despite the wider restructuring. A change in incentive structures to reward corporate bankers who bring in new clients to the private bank has also helped boost Indian AUM, Saha said. “New clients are coming and our relationship managers are on the front foot as uncertainties regarding a possible sale are behind us,” he added. Deutsche Bank started its India operations in 1980 and now has about 1,800 employees in businesses including retail and wholesale banking, investment-banking advisory and wealth-management services. The retail bank has 17 branches in 16 Indian cities, the only such operation outside Europe. In 2011, Deutsche Bank sold its credit card business, and four years later, it sold its local asset management unit. “For two years we didn’t grow as the global woes and uncertainties put us on the back foot,” said Saha. “Now we are moving ahead and are planning to add resources at a pace never seen before.”

Dated: Aug 27, 2019

• **Government’s Rs. 1.76 Trillion RBI Bonanza Raises Fresh Stimulus Hopes:**

The Reserve Bank of India (RBI) will transfer Rs. 1.76 trillion to the government this fiscal, the central bank said after a board meeting. The transfer includes Rs. 1.23 trillion of surplus for 2018-19 and Rs. 52,637 crore of excess provisions identified as per the revised Economic Capital Framework (ECF) adopted at the meeting, RBI said in a statement on Monday. The higher surplus is due to the long-term forex swaps and the open market operations (OMO) conducted by the central bank over the last fiscal. The surplus transfer was finalized in line with the recommendations of the committee under former central bank governor BimalJalan. RBI’s central board accepted all the recommendations of the committee. The additional amount of Rs. 86,000 crore that the government will receive this year above its budgeted Rs. 90,000 crore as transfers from RBI could be either used to provide fiscal stimulus to a sagging economy, reduce off-balance sheet borrowings or meet the expected shortfall in revenue collections."It
is a surprise to a certain extent because we had expected it to be a staggered payment to the government instead of everything in one shot. The budget expected a Rs. 90,000 crore surplus transfer and this extra Rs. 80,000 crore, to my mind, will act as a cushion against the possible shortfall in revenue collection in FY20,” said Madan Sabnavis, chief economist at CARE Ratings. “Overall, I do not think that this will have inflationary pressures on the economy, since firstly, the current inflation levels are quite low and secondly, the government might not use this for spending and could instead use it to meet the possible revenue shortfall.”

The RBI committee has recommended a surplus distribution policy, which targets the level of realized equity to be maintained by RBI within the overall level of its economic capital, the statement said. The committee defines economic capital as a combination of realized equity and revaluation reserves. RBI’s realized equity, which is a form of contingency fund for meeting all risks/losses primarily built up from retained earnings, currently stands at 6.8% and the Jalan committee recommends it to be in the range of 6.5-5.5% of the balance sheet. Keeping these recommendations in view, the central board has decided to set the realized equity level at 5.5% of the balance sheet, while transferring the remaining excess reserves worth Rs. 52,637 crore to the government. “Jalan committee has given a range of 5.5-6.5% for Contingent Risk Buffer. My worry is all governments will work at the lower range of 5.5%, like they have done it for this year. It does not give RBI very much space to manoeuvre. Keeping RBI at the rock-bottom level is not a sensible idea, but I am afraid that is what is going to happen,” said Pronab Sen, former chief statistician of India. The central board has also decided to set the economic capital level comprising the contingency fund and revaluation reserves as on 30 June at 24.5-20%. In turn, the board has not touched the revaluation reserves, which comprises periodic marked-to-market unrealized/notional gains/losses in values of foreign currencies and gold, foreign securities and rupee securities, and a contingency fund. “As financial resilience was within the desired range, the entire net income of Rs. 1,23,414 crore for the year 2018-19, of which an amount of Rs. 28,000 crore has already been paid as interim dividend, will be transferred to the Government of India. This is in addition to the Rs. 52,637 crore of excess risk provisions, which have been written back and consequently will be transferred to the government,” said the statement. The six-member panel headed by Jalan was appointed in December to review the ECF for RBI. The government has already received Rs. 40,000 crore during FY19. In February, RBI had announced a Rs. 28,000 crore interim dividend, taking the total dividend transfer to the government to Rs. 68,000 crore. The RBI central board is yet to approve the Rs. 28,000 crore interim dividend. The government has set a fiscal deficit target of 3.3% of gross domestic product for the current fiscal, revised downward from 3.4% pegged in the interim budget in February. Sen said the sensible thing for the government would be to reduce the balance sheet and off-balance sheet borrowings using the additional transfer from RBI, such as the recapitalization bonds issued for Public Sector Banks and huge borrowing by the Food Corporation of India from the small savings fund. Aditi Nayar, principal economist at Icra India, said the transfer of surplus from RBI should help offset the expected shortfalls in various tax revenues in 2019-20 and aid the government in meeting its fiscal deficit target. “As a result, G-Sec yields are likely to ease in the immediate term,” she added.
• You May Not Be Able To Use ATM Twice A Day If Banks Have Their Way:

The Automated Teller Machine or ATM may not remain the All Time Money machine if banks have their way. As per a report of Times of India, banks are mulling to reduce ATM transactions in view of the rising ATM frauds. The report says that the banks want to allow just one transaction per a certain period, between six to 12 hours. “The Delhi State-Level Bankers’ Committee (SLBC) is suggesting a host of measures to prevent ATM frauds, which are on the rise, including a time lag of six to 12 hours between two transactions,” says the report. Further, banks want to further strengthen the security system in ATMs which will include two-way communication. “So, if someone walks into an ATM with a helmet, the voice on the other side advises him to take it off. Similarly, even in bank branches, customers have been advised to stay away from the teller, while the camera keeps an eye on the ATM even if the guard dozes off,” explained the TOI report. During 2018-19, 179 ATM fraud cases were reported in Delhi, which was the second highest in the country after 233 in Maharashtra. In recent months, cloning of cards has been on the rise with foreign nationals seen to be involved in a large number of cases. Across the country, the number of frauds that were reported rose to 980 in 2018-19, compared to 911 in the previous year. State Bank of India has reduced ATM cash withdrawal limit to Rs 20,000 to reduce ATM frauds. Canara Bank meanwhile is sending OTPs for any withdrawal above Rs 10,000.

• PNB, Allahabad Bank Launch Loan Products Linked To Repo Rate:

Leading state-owned lender Punjab National Bank and Allahabad Bank on Tuesday announced linking of their retail loans with the Reserve Bank's repo rate, which will make loans cheaper. Punjab National Bank launched PNB Advantage, a retail lending scheme linked with the repo rate effective Tuesday. “In the new schemes rate of interest will be 0.25 per cent less than the existing applicable rates based on MCLR. The new rates will vary from 8.25 per cent to 8.35 per cent for housing loan borrowers and 8.65 per cent for car loan borrowers,” PNB said in a statement. Existing customers of the bank will also have an option to switch over to new Repo Linked Lending Rates (RLLR) with minimal charges, it said. Allahabad Bank said it has benchmarked its loans up to Rs 75 lakh with the External Benchmark Linked Rates (EBLR), comprising the repo rate as
one of its constituents. To ensure quicker transmission of policy rate adjustments, the bank has decided to price its housing loans up to Rs 75 lakh and Mudra loans sanctioned with effect from September 1, 2019, with reference to EBLR, Allahabad Bank said in a regulatory filing. The EBLR is made up of RBI’s repo rate at which the apex regulator gives short term loans to banks, an average of last ten years net interest margin of the bank rounded off to the nearest 5 basis points and credit risk premium on internal credit risk rating. “However, the borrowers shall have the option for either Marginal Cost of funds based Lending Rates (MCLR) linked loan or EBLR linked loan at mutually acceptable terms,” the bank said in the filing. Also, all the saving bank deposits of Rs 40 lakh and above will be linked with external benchmark with effect from October 1, 2019, it added. The announcements come days after Finance Minister Nirmala Sitharaman said that banks will launch repo rate and external benchmark-linked loan products that will lead to reduced EMIs for housing, vehicle and other retail loans. “This will therefore result in reduced EMI for housing loans, vehicle and other retail loans by directly linking repo rate to the interest rates which means the moment reduction happens, it will directly benefit end customers,” she had said on Friday. RBI governor Shaktikanta Das had exhorted banks to price their loans with repo rate for a faster transmission in a falling interest rate regime. The Reserve Bank has cut its repo rate four times in succession in 2019 so far. Country’s largest lender SBI already benchmarks its loan products against the repo linked rates. Apart from this, a number of lenders have announced linking their loan products with RBI’s repo rate.


Dated: Aug 27, 2019

- **FM Says All Options On The Table For Utilizing RBI’s Rs. 1.76 Trillion Funds:**

Finance minister Nirmala Sitharaman on Tuesday indicated that all options are open for the government to utilize the Reserve Bank of India’s Rs. 1.76 trillion largesse. Accepting the recommendations of the BimalJalan committee, the central board of RBI on Monday decided to transfer Rs. 1.23 trillion of its surplus and Rs. 52,637 crore of excess provisions, in a relief for the government struggling to meet revenue targets in a slowing economy. “I can’t talk about how to utilize it now. We will take a call and then let you know,” Sitharaman said in response to a question at a press conference in Pune after attending an interaction with traders, entrepreneurs and industry experts. The additional amount of around Rs. 58,000 crore that the government will receive this year, above its budgeted Rs. 90,000 crore as transfers from the central bank, could be used either to provide fiscal stimulus to revive a sagging economy, reduce off-balance sheet borrowings or meet the expected shortfall in revenue collections. Sitharaman on Friday announced a slew of measures to boost confidence in the economy, but stopped short of announcing any fiscal stimulus. However, the minister said she may announce more measures this week, including a package for homebuyers. On questions being raised about the large transfer of surplus to the government, Sitharaman said the Jalan committee had eminent experts and was constituted by RBI itself and not the government. “They have had several sittings and have come out with a formula based on which the amount has been arrived at. Any suggestion about the
credibility of the RBI, therefore, seems a bit outlandish. They (the committee members) themselves (on Monday) have given an explanation that financial stability, surplus to meet any emergency and contingency have all been factored in by the committee while arriving at the formula,” she added. The surplus transfer also created a political row, with the Congress attacking the government on the issue and Sitharaman hitting back that the party’s previous “chor” (thief) jibe had backfired. Indira Rajaraman, an economist and former member of the RBI board, said about Rs. 1 trillion surplus transfer by RBI this year, which amounts to 0.5% of GDP, is a very large transfer. “I have no quarrel with the calculations of the report. However, if the expectation going forward from the government remains that non-tax revenue worth 0.5% of GDP will come from the RBI every year, that would amount to fiscal dependence on the RBI, which is not a good thing,” she added.

Madhavi Arora, lead economist at Edelweiss Securities, said the money could be used to bridge the expected tax shortfalls or boost sector-specific expenditure. “That said, this bonanza appears one-time and does not necessarily bode well in the medium term from a fiscal standpoint. With the expansion of RBI’s balance sheet ahead, the maintenance of contingent risk buffer at 5.5% of RBI balance sheet, as accepted by the RBI board, would mean RBI’s net income will have to be adjusted accordingly before transferring as a dividend to the government, implying possibly lower dividends for the government,” she added.

Source: https://www.livemint.com/politics/policy/no-decision-yet-on-how-to-use-rbi-s-rs-1-76-trillion-windfall-says-sitharaman-1566917264968.html
Dated: Aug 27, 2019

- RBI’s Rs. 1.76 Trillion Transfer To Government To Be Balance Sheet Neutral:

The transfer of the Reserve Bank of India’s (RBI) surplus to the government will not require the central bank to sell assets and won’t shrink the size of its balance sheet, a person aware of the development said. The person also said that finance secretary Rajiv Kumar, the government’s nominee on the BimalJalan committee, wanted RBI’s surplus, or the contingency risk buffer for monetary and financial stability, at 3% of its balance sheet, significantly lower than the panel’s final recommendation. The risk buffer helps the central bank maintain India’s monetary and financial stability. The Jalan committee decided to keep the buffer at 4.5-5.5% for monetary and financial stability risks and 1% for credit and operational risks. RBI’s realized equity, which is a form of contingency fund for meeting all risks, primarily built up from retained earnings, is now at 6.8%. Following the central bank’s announcement of a Rs. 1.76 trillion surplus transfer to the government, there were concerns that RBI would have to sell assets to balance the money flowing out of its liabilities. RBI’s assets include government of India bonds, foreign exchange assets and gold. Explaining the process, the person said, the money (surplus and excess capital) is at present part of the liability side of RBI’s balance sheet and would move to the government’s deposit parked with RBI, also

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part of the central bank's liabilities. “When the government draws the money from its account to spend, it will lead to an increase in currency in circulation in the economy. Since currency in circulation is also part of RBI's liabilities, it would balance the outflow from the government's account,” the person said. According to the latest figures, as on 16 August the currency in circulation stood at Rs.21.98 trillion, as against Rs. 19.42 trillion a year ago. RBI agreed to transfer Rs.1.76 trillion to the government this fiscal, the central bank said after a board meeting on Monday. The transfer includes Rs.1.23 trillion of surplus for 2018-19 and Rs.52,637 crore of excess provisions identified as per the revised economic capital framework adopted at the meeting, said RBI. Meanwhile, the central bank has made annual profit in the range of Rs.15,013-65,900 crore between 2010-11 and 2017-18 and the profit of Rs.1.23 trillion in 2018-19 was substantially high. According to the person cited above, RBI made this whopping profit in 2018-19 owing to an increase of Rs.36,000 crore in income earned from open market operations (OMOs) this year. Another component was that it earned Rs.21,000 crore because it used a new methodology to value foreign exchange gains starting 2018-19. A clearer picture of RBI's finances for 2018-19 will be available once it releases its annual report on Thursday. India Ratings and Research said in a report on Wednesday that the surplus in banking system liquidity (approximately Rs.1 trillion) has been driven by RBI’s continued OMOs, aggregating Rs.3.5 trillion in the 12 months ended 31 July, the forex swap window that brought in approximately Rs.70,000 crore of foreign capital. “The Rs.1.76 trillion surplus transfer by the Reserve Bank of India (RBI) to the central government is likely to provide some respite to the center’s finances; however, a major portion of this amount is likely to be utilized in meeting revenue receipt shortfalls emanating from the weakening economic conditions,” the report said. That apart, the Jalan panel has recommended that the central bank pay interim dividend to the government, a practice that started in 2016-17, only under exceptional circumstances. All the recommendations of the panel, set up to study the central bank's economic capital framework, were accepted by RBI's central board on Monday. The Jalan committee has also recommended that RBI's capital framework be reviewed every five years and its accounting year (July-June) be aligned with the fiscal year that ends on 31 March.


Dated: Aug 28, 2019

• **E-KYC, Digital KYC For Opening Bank Accounts To Make Process Secure, UIDAI:**

The recent amendments to anti-money laundering rules allowing voluntary use of Aadhaar for opening of bank accounts and the modalities of digital KYC for cases where verification is done using other documents like voter ID and driving licence will make the process secure and convenient for users, UIDAI CEO said on Wednesday. The government, last week, had notified amendments to the Prevention of Money-Laundering (Maintenance of Records) rules to allow voluntary use of the biometric identifier for opening of bank accounts, and had also spelt out the detailed procedure for ‘digital KYC’ to be performed in case of verification done via documents like voter ID and driving licence. The notification now paves the way for use of various verification mechanisms – Aadhaar eKYC where Aadhaar documents are given voluntarily, offline verification and Digital KYC (Know Your Customer) for opening bank accounts.
The same procedure will also be applicable for investment in mutual funds and opening of demat accounts. “Digital KYC has been successful in telecom sector for issuing mobile connections. For bank accounts too, now if someone has paper Aadhaar, voter ID or driving licence, then the person can go for Digital KYC, like in the telecom sector,” Unique Identification Authority of India (UIDAI) CEO Ajay Bhushan Pandey told PTI. Digital KYC will involve capturing the live photo of the customer and officially valid documents or proof of possession of Aadhaar where offline verification cannot be carried out, along with latitude and longitude of the location where such live photo is being taken by an authorised officer of the bank. A step-by-step procedure has been laid down for performing Digital KYC. “The process which has been laid down for Digital KYC makes it convenient, safe, secure and fraud-proof. Earlier, someone could have perhaps misused someone else’s ID documents, without that person’s knowledge for opening bank account. The stringent process that has been outlined will ensure that doing so will not be possible,” Pandey added. He noted that Digital KYC will ensure a smooth process for those who do not want to share their Aadhaar number for opening bank account. Parliament recently passed an amendment bill which allows voluntary use of Aadhaar as proof of identity for opening bank accounts and getting mobile phone connections. The Aadhaar and Other Laws (Amendment) Bill proposed changes in the Aadhaar Act, Indian Telegraph Act and the Prevention of Money Laundering Act (PMLA) to comply with a Supreme Court judgement pronounced on September 26 last year in which it upheld the constitutional validity of unique identification project, with certain restrictions and changes. The compulsory use of Aadhaar-based KYC for mobile connections and bank accounts was prohibited by the apex court.

Dated: Aug 28, 2019

• **Lakshmi Vilas CEO Shri Parthasarathi Mukherjee Quits:**

Lakshmi Vilas Bank’s chief executive Shri Parthasarathi Mukherjee quit Wednesday citing personal reasons, leaving a question mark on the execution of the private-sector lender’s proposed merger with Indiabulls Housing Finance. The lender’s board has accepted his resignation, the bank said in a customary filing with stock exchanges. Mukherjee would leave the bank on August 31, “as per his request,” the lender said in the statement. “I was planning this for quite some time. I have no other plans as yet,” Mukherjee told ET. “My resignation should not hamper the merger process.” Mukherjee joined the bank on January 25, 2016, and was reappointed in January this year for a period of two years. He had to deal with spiralling bad loans and mounting losses over the past few quarters. The merger with Indiabulls was, therefore, billed as a win-win solution for both parties – the NBFC getting access to a bank, while the capital-starved lender getting the support of a well-capitalized home financier. The proposed merger has been cleared by the Competition Commission of India, although the Reserve Bank of India (RBI) is yet to give its approval. Indiabulls Housing had proposed Sameer Gehlaut as the non-executive chairman and Gagan Banga as the chief executive of the merged entity. Under Mukherjee, the bank was also looking to raise capital to improve its falling capital adequacy ratio but failed to draw investors due to asset quality concerns.
The bank’s board, at its meeting Wednesday, also approved raising Rs 1,500 crore through equity and bonds to shore up the capital adequacy ratio. The lender’s net loss for the June quarter widened to Rs 237 crore, compared with Rs 124 crore in the year-ago period, largely due to higher provision and lower growth in net interest income. Indiabulls Housing Finance reported a 24% fall in net profit at Rs 802 crore for the first quarter. The merger was proposed in a share-swap deal, whereby shareholders of the bank would get 14 shares of Indiabulls Housing Finance for every 100 equity shares held in the bank.

Dated: Aug 29, 2019

• **Banks Wary Of Big Rate Cuts, Fear Hit On Deposit Growth:**

Despite mounting pressure to reduce interest rates across the spectrum, banks are wary of slashing retail deposit rates beyond a few basis points, as doing so would make it tougher to garner deposits in a competitive landscape where incremental savings are hard to come by. Bankers have expressed concerns over the falling deposit rates, especially for senior citizens, who largely live on their interest earnings. In other words, banks are protecting small depositors who account for 80-90% of their liability portfolios, even at the risk of slightly lower interest rate margins. This also means that the monetary transmission would remain slow and partial. State Bank of India Chairman Rajnish Kumar recently said deposit rates cannot be lowered beyond a point as this would hurt small savers. There is a need to protect senior citizens from falling deposit rates as they largely depend on interest income, he said. SBI, the nation’s largest bank, has only linked bulk deposits to repo rate while Allahabad Bank has linked savings bank deposits above Rs 40 lakh to the external benchmark. Past experiments with floating rate term deposits to ensure better and quicker policy-rate transmission have largely been unsuccessful. On the asset side, only home loans or Mudra loans are being linked to repo rate, which would make the transmission of lower repo rate automatic for new borrowers in these segments. “We have a commitment to small depositors as they can't plan their cash flows well. There is certain stickiness to individuals’ savings behavior. That stickiness is important for the economy,” Allahabad Bank Chief Executive SS Mallikarjuna Rao said. “On a larger perspective, savings need to be promoted.” Stickiness in deposit rates remained the biggest hurdle in rate transmission. Reserve Bank of India has lowered repo rate by 110 basis points since February, while banks have on an average transmitted around 40 bps through their MCLRs. State-owned lenders have transmitted more than their private sector rivals. “Upfront capital infusion is positive for PSU banks, but faster rate transmission by PSU banks will arrest their expected net interest margin (NIM) improvement,” Nomura said in a research note. United Bank of India chief executive Ashok Kumar Pradhan said that NIM around 2.5% can be considered as low in the Indian context, given the banks’ social banking mandates. “Ideally, NIM should be around 3%, given the volatility in the banking sector,” Pradhan said. SBI’s Group chief economic adviser Soumya Kanti Ghosh said that a 100-basis point cut in deposit rates could result in 45-50 basis point reduction in lending rates. “Interestingly, small savings rates are not a constraining factor as incremental small savings collections...
are merely 11% of incremental deposits! However, in a developing country like India, cutting deposit rates always remains a challenge, given that senior citizens depend on interest income from deposits as a source of livelihood," Ghosh said. He suggested that the regulator enforce the guidance linking incremental bulk deposits to the repo rate to make it an industry trend. Deposits of Rs 2 Crore and above are considered as bulk deposits and banks have discretion to offer differential rate of interest on such deposits.


Dated: Aug 29, 2019

• Pain In RBL Bank Stock Recedes, But Regaining The Charm Would Be Challenging:

Shares of private sector lender RBL Bank Ltd covered some losses in early trade on Thursday after buying at lower levels. At present, the stock is trading at Rs. 324.20, up more than 3% on the NSE. The stock took a beating on Wednesday, following speculation of insider trading. However, the bank later clarified that market transactions of shares by employees was a “routine activity”. In a statement to the exchanges, RBL Bank said market transactions by employees was a routine activity with regular exercise of ESOPs (employee stock ownership plans) and sale of equity shares thereafter. According to some analysts, while one is seeing investor interest in the stock at these levels, shares of the bank are unlikely to regain their lost charm in a hurry. It should be noted that the RBL Bank stock hit a 52-week high of Rs. 716.40 on the NSE in May this year. But its fall from glory was swift with the stock tanking to a 52-week low of Rs. 286.10 on 28 August. The cut got steeper after the bank’s management recently indicated that its asset quality could be under pressure in the coming quarters. In the June quarter, RBL Bank reported a 41% jump in net profit against the year ago, aided by a healthy 48% growth in core income. Although its gross bad loan ratio for the June quarter was steady, slippages increased. What also soured investors’ sentiment towards the stock was the lender’s exposure to Coffee Day Enterprise, whose founder V.G. Siddhartha recently passed away. Meanwhile, post June-quarter earnings, a slew of brokerages expressed concerns on the bank’s exposure to few stressed corporate accounts. Worried over higher slippages and consequent provisions, some of them reduced their earnings estimates for fiscal years 2020 and 2021. In a report published on 27 August, brokerage house Emkay Global Financial Services Ltd said that expected the stock to remain under pressure until the bank recognized its corporate stress pool, and resumed its otherwise high return on assets trajectory.

Dated: Aug 29, 2019

• Revival Of Demand, Investment Top Priority:

Reviving consumption demand and Private Investment remains the top priority in the current fiscal, the Reserve Bank of India (RBI) said on Thursday, signaling the possibility of at least one more interest rate cut this year. To revive growth, governor Shaktikanta Das asked banks to pass on past rate cuts to borrowers at a faster pace by linking lending rates to external benchmarks such as repo rate. Das’s renewed pitch for addressing the causes of the slowdown in Asia’s third-largest economy comes amid sales of passenger
vehicles dropping to a near two-decade low in July and news of mass layoffs across several industries. The central bank has already slashed rates by 110 basis points this year to spur growth. The recent deceleration could be in the nature of a soft patch mutating into a cyclical downturn, rather than a deep structural slowdown, RBI said in its annual report released on Thursday. Nonetheless, there are still structural issues in land, labour, agricultural marketing and the like that need to be addressed, it added. “The diagnosis is difficult; these conditions are hard to disentangle cleanly, at least in the formative state,” the central bank said. RBI, however, cautioned that a broad-based cyclical downturn is underway in several sectors manufacturing, trade, hotels, transport, communication and broadcasting, construction, and agriculture. “However, it is important to note that trend growth has witnessed slight moderation since 2016-17, contributed mainly by the services sector, especially trade, hotels, transport, communication and broadcasting, and financial, real estate and professional services,” it said. The delayed onset and skewed distribution of the south-west monsoon may pose downside risks to crop production and rural consumption demand, the report said, adding that this is evident in the sharp contraction in the sales of motorcycles and tractors. The central bank has forecast India’s GDP to grow at 6.9% for FY20—in the range of 5.8-6.6% during the first half of the year and 7.3-7.5% in the second half. The nature of the slowdown, RBI said, will determine the policy response—illustratively, a soft patch can be looked through, while a cyclical downswing will warrant counter-cyclical actions in terms of monetary and fiscal policies, but a structural slowdown will need deep-seated reforms. The annual report pointed out that throughout the year, protectionist policy pronouncements and actions dominated the global political arena. According to the central bank, these dealt a body blow to world trade, roiled financial markets and posed risks to macroeconomic prospects of several economies, advanced and emerging alike, that have sought to employ the engine of trade to integrate into the global economy. “They also fuelled an animated debate on the end of globalization. Yet, the unfolding of events during the year demonstrated that the world remains coupled, or at least uniformly vulnerable to global shocks,” it said. Macroeconomic outcomes in the first quarter of 2018 seemed to indicate that the global economy was on an extended expansionary phase, it said. According to the central bank, another conduit through which trade wars and other sources of global spillovers impacted India during 2018-19 is the intertwining of the finance and confidence channels. “For countries like India, which traditionally run current account deficit, viable external financing can become an additional consideration for holding adequate precautionary buffers. It is prudent to bear in mind the experience of 2018-19 when a crude oil price-induced expansion in the current account deficit through the first three quarters of the year was coincident with risk-averse portfolio
outflows, warranting the use of reserves for meeting financing requirements,” said RBI.


Dated: Aug 29, 2019

• **RBI Extends Banking License Of Rupee Cooperative Bank Till Nov 30, 2019:**

Rupee Co-op. Bank Ltd., Pune has been granted extension for its banking license by the RBI till November 30, 2019. “The Board of Administrators of Rupee Bank is trying to safeguard the interests of its depositors since last three years. RBI has taken a positive note of these efforts and transparent as well as satisfactory performance of the Board of Administrators,” a release form the bank said. The RBI Inspection and the Statutory Audit for the FY 2018-19 is completed. “There are no adverse remarks in both the reports. The Bank has paid Rs.338.20 crores to 85462 needy depositors under hardship scheme of RBI. The Bank is having deposit of Rs.1291.00 crores,” the release mentioned. The MSC Bank has undertaken Due Diligence of the Bank for its Merger/Take Over. The Due Diligence Report is submitted to MSC Bank for their perusal. Rupee Bank & MSC Bank are going to submit joint proposal for merger to Reserve Bank of India. The Administrative Board is following up with the State Government & MSC Bank. The enquiry on the appeals of the delinquent directors and executives is in process. Recently, Chairman of Board of Administrators had meeting with Minister for Co-operation, Maharashtra State. He urged him to expedite the proceedings in the pending appeals filed by the delinquents. He also requested to look into the Merger/Takeover of Rupee Co-op. Bank Ltd., with MSC Bank Ltd and to resolve the long outstanding problem of the depositors of RCBL. During the current financial year, the Bank till date has recovered Rs.9.24 crores and earned Operating Profit of Rs.8.00 crores after all required provisions. The Bank expects recovery of Rs.40.00 crores during the year. The Bank is also hopeful of earning Operating Profit of more than Rs.10.00 crores in the current financial year. “The Bank has taken hard and effective steps for recovery in hardcore accounts. It includes attachments of properties of defaulter borrowers, public auctions of the same, filing criminal suits against defaulter borrowers/guarantors, etc. The Bank has also informed the names of its defaulter borrowers/guarantors to other banks for effective recovery. The Bank has also implemented OTS scheme and effective good recovery from the age old borrowers,” the release said.


Dated: Aug 30, 2019

• **Govt Announces Mega Mergers Of Public Sector Banks:**

Finance Minister Nirmala Sitharaman last week had announced a rollback of recent tax hikes on foreign and domestic equity investors and an acceleration of capital infusion of Rs. 70,000 crore into state-run banks in an attempt to boost market sentiment and revive the slowing economy. The finance minister had also announced a number of measures including some for the crisis-hit autos sector, small businesses, and the troubled NBFC sectors. Last year, the government had approved the merger of Vijaya Bank and Dena Bank with Bank of Baroda (BoB) that has become effective from April 1, 2019. In 2017, the State Bank of India absorbed five of its associates and the BharatiyaMahila Bank. Indian banks are
saddled with record soured debt of about $130 billion, much of it on the books of state-run banks. An NBFC crisis is threatening to add to the pile of stressed debt. Finance Minister is addressing the media. Here are the highlights of what she said: We want banks with strong national presence and enhanced risk appetite, PNB, OBC and United Bank to be merged, 8 PSU banks have so far launched repo rate-linked loans, Loan tracking mechanism in PSU banks is being improved for the benefit of customers, 4 NBFCs have found liquidity support through PSU banks since last Friday, For NBFCs, partial credit guarantee mechanism has already been implemented, Govt working on banking reforms, Gross NPAs of PSU banks have come down, Provision coverage ratio highest in 7 years, Best practices of each bank in consolidation of Vijaya Bank, Bank of Borada and Dena Bank have been absorbed.

Dated: Aug 30, 2019

• IBA To Review Performance-Linked Pay For Bank Employees:

Indian Banks’ Association (IBA) has refused to raise the wage increase offer from 10% but agreed to review the proposed performance-linked pay (PLP) scheme for about 8.5 lakh public sector bank employees, raising concerns over further delay in bipartite wage negotiations. The bankers’ body has, at a meeting with bank unions on Thursday, proposed to form a sub-committee to deliberate on the contentious variable pay issue, two people familiar with the development said. “Nothing has been settled yet. The United Forum of Bank Unions (UFBU) will meet on September 11 to discuss the issues at hand and decide the future course of action,” said Rajen Nagar, president, All India Bank Employees Association. Wage revision in public sector banks take place every five years. The 11th bipartite settlement is due from November 1, 2017. IBA appears to be in favour of dealing with the pay hike, variable pay and the mandate issue simultaneously while bank unions led by UFBU are looking to settle the pay hike issue first. Earlier, IBA had raised the wage hike offer to 10% on fixed pay component in February while it had reduced the variable offer to 6.2% from 8.2%. IBA had also proposed a split mandate for officers up to scale V suggesting bank-wise increment

 reforms initiated in the Public Sector Banks (PSBs) have started showing results as 14 of them posted a profit in the first quarter of the current fiscal. The minister also said that to avoid Nirav Modi like frauds in the PSBs, the SWIFT messaging system has now been linked with the core banking system.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/psbs-gross-npas-down-to-rs-7-9-lakh-crore-fm-nirmala-sitharaman/articleshow/70910073.cms
Dated: Aug 30, 2019

• PSBs Gross NPAs Down To Rs 7.9 Lakh Crore, FM Smt. Nirmala Sitharaman:

Smt. Nirmala Sitharaman announces big reforms for Public Sector Banks: Key highlights Finance Minister Nirmala Sitharaman on Friday said the profitability of public sector banks has improved and total gross non-performing assets have come down to Rs 7.9 lakh crore at end-March 2019 from Rs 8.65 lakh crore at end-December 2018. She also said liquidity support to NBFCs and housing finance companies has improved as the partial credit guarantee scheme has been executed. An infusion of Rs 3,300 crore has already been made and another Rs 30,000 crore is in the pipeline. Addressing her second press conference to announce steps to boost the economy, the finance minister said the
for officers in Scale VI and VII. Deputy general managers and general managers in public sector banks are in scale VI and scale VII, respectively. Public sector banks cumulatively have 3.76 lakh officers up to scale V on their rolls which is 99.27% of total officers in these banks at present. “All these issues appear to have now taken a backstage. IBA is pushing us to agree to variable pay first,” a union leader with State Bank of India said. Two bank unions – the All India Bank Officers Confederation (AIBOC) and National Organisation of Bank Officers (NOBO) – which boycotted the previous rounds of wage talks protesting against the mandate issue took part in Thursday's meeting.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/iba-to-review-performance-linked-pay-for-bank-employees/articleshow/70911498.cms
Dated: Aug 30, 2019

- **Half Of Merging Banks Had ‘Foreign’ Origins:**

  While the big bang merger will bring in much needed economies of scale in the operations of some of the smaller banks, it will also result in erasing the identity of six banks, some of which are more than a century old. The oldest is Kolkata-based Allahabad Bank, which is also the oldest joint stock company in India. Unlike other nationalised banks which happened to have Indian promoters, this institution was founded in Allahabad by a group of Europeans in 1865. In 1920, the bank was acquired by P&O Banking Corporation and relocated to Kolkata. Its ownership moved into Indian hands before nationalisation. Like the bank it is merging into (PNB), Oriental Bank of Commerce was established in Lahore a few years before Independence in 1943 by a businessman, Rai Bahadur LalaSohan Lal. In 1945, the bank was acquired by the Thapar Group. Two years later, following Partition, the bank's head office was shifted from Lahore to Amritsar. It then relocated to New Delhi in 1951. The bank was nationalised in 1980. United Bank of India, too, had its origins outside the borders of present day India. UBI was formed by the merger in 1950 of four banks of British Bengal. The banks were Comilla Banking Corporation (founded by N C Dutta in 1914 in present day Bangladesh), Bengal Central Bank (set up by J C Das in 1918), Comilla Union Bank and Hooghly Bank. Syndicate Bank was founded in 1925 in Udupi in coastal Karnataka as Canara Industrial and Banking Syndicate by UpendraAnanthPai, a businessman, VamanKudva, an engineer, and Dr T M A Pai, a physician. The bank was founded in the same district as three other nationalised banks Canara Bank, Corporation Bank and Vijaya Bank. Corporation Bank, which will merge into Union Bank, was founded in Udupi by Haji Abdullah Haji KasimSaheb Bahadur in 1906. However, after a decade, the bank’s operations were handled by businessmen from the Goud Saraswat Brahmin community. Incidentally, Syndicate and Canara Bank were also set up by members of the same community. Andhra Bank was born out of the nationalistic movement during the freedom struggle. The bank was founded in 1923 in Machilipatnam, a port town in coastal Andhra Pradesh, by Bhogaraju Pattabhi Sitaramaiah. Bank of Baroda, which acquired Vijaya Bank and Dena Bank, had announced last month that in order to preserve the rich heritage of all the three brands, museums are being planned at heritage sites to showcase the history of the entities.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/half-of-merging-banks-had-foreign-origins/articleshow/70920344.cms
Dated: Aug 31, 2019
Board To Soon Consider Amalgamation With OBC & United Bank, PNB:

Punjab National Bank (PNB) on Saturday said a board meeting will be held soon to consider amalgamation of Oriental Bank of Commerce and United Bank of India with itself. The bank has received a communication from the Ministry of Finance that the Alternative Mechanism (AM), after consultation with Reserve Bank of India (RBI), has decided that Punjab National Bank, Oriental Bank of Commerce (OBC) and United Bank of India may consider amalgamation, it said in a regulatory filing. “Accordingly, a meeting of board of directors to consider the amalgamation will be convened by the bank shortly,” PNB said. Meanwhile, Corporation Bank, which is going to be merged with Union Bank of India along with Andhra Bank, too said a board meeting will be held to consider the merger. In a stock exchange filing, it said “a meeting of the Board of Directors of the Bank to consider the amalgamation will be convened by the Bank in due course”.

The government on Friday unveiled a mega plan to merge 10 public sector banks into four as part of plans to create fewer and stronger global-sized lenders as it looks to boost economic growth from an over six-year low. Finance Minister Nirmala Sitharaman, who had last week announced tax sops and measures for sectors such as auto, announced four new sets of mergers Punjab National Bank, Oriental Bank of Commerce and United Bank of India will combine to form the nation’s second-largest lender; Canara Bank and Syndicate Bank will merge; Union Bank of India will amalgamate with Andhra Bank and Corporation Bank; and Indian Bank will merge with Allahabad Bank. The exercise, seen together with the previous two rounds of bank consolidation, will bring down the number of nationalized public sector banks to 12 from 27 in 2017. This, the government feels, will make bank balance sheet stronger with greater capacity to lend.

Dated: Aug 31, 2019

Government Accepts State Bank Of India MD Smt. Anshula Kant’s Resignation:

The government has accepted the resignation of State bank of India’s managing Director Smt. Anshula Kant, following her appointment as MD and chief financial officer of the World Bank. “The government hereby accepts the resignation of Anshula Kant, Managing Director of the bank, with effect from August 31 in relaxation of the notice period,” SBI said in a BSE filing. Kant was appointed as the managing director and chief financial officer of the World Bank. As MD and CFO, Kant will be responsible for financial and risk management of the World Bank Group.

Dated: Aug 31, 2019
India’s overall exports (Merchandise and Services combined) in April-July 2019-20* are estimated to be USD 181.47 billion, exhibiting a positive growth of 3.13 per cent over the same period last year. Overall imports in April-July 2019-20* are estimated to be USD 214.37 billion, exhibiting a negative growth of 0.45 per cent over the same period last year.

Merchandise Trade:

- **Exports (Including Re-Exports):** Exports in July 2019 were USD 26.33 billion, as compared to USD 25.75 billion in July 2018, exhibiting a positive growth of 2.25 per cent. In Rupee terms, exports were Rs. 1,81,190.34 crore in July 2019, as compared to Rs. 1,76,914.60 crore in July 2018, registering a positive growth of 2.42 per cent. In July 2019, major commodity groups of export showing positive growth over the corresponding month of last year are Cumulative value of exports for the period April-July 2019-20 was USD 107.41 billion (Rs. 7,45,174.85 crore) as against USD 107.81 billion (Rs. 7,26,842.89 crore) during the period April-July 2018-19, registering a negative growth of 0.37 per cent in Dollar terms (positive growth of 2.52 per cent in Rupee terms). Non-petroleum and Non Gems and Jewellery exports in July 2019 were USD 19.70 billion, as compared to USD 18.72 billion in July 2018, exhibiting a positive growth of 5.28 per cent. Non-petroleum and Non Gems and Jewellery exports in April-July 2019-20 were USD 79.81 billion, as compared to USD 78.41 billion for the corresponding period in 2018-19, an increase of 1.79 per cent.

- **Imports:** Imports in July 2019 were USD 39.76 billion (Rs. 2,73,579.71 crore), which was 10.43 per cent lower in Dollar terms and 10.28 per cent lower in Rupee terms over imports of USD 44.39 billion (Rs. 3,04,916.76 crore) in July 2018. Cumulative value of imports for the period April-July 2019-20 was USD 166.80 billion (Rs. 11,57,232.64 crore), as against USD 173.08 billion (Rs. 11,67,617.41 crore) during the period April-July 2018-19, registering a negative growth of 3.63 per cent in Dollar terms (negative growth of 0.89 per cent in Rupee terms). Major commodity groups of import showing negative growth in July 2019 over the
corresponding month of last year are:

- **Crude Oil And Non-Oil Imports:** Oil imports in July 2019 were USD 9.60 billion (Rs. 66,056.77 crore), which was 22.15 percent lower in Dollar terms (22.02 percent lower in Rupee terms) compared to USD 12.33 billion (Rs. 84,707.59 crore) in July 2018. Oil imports in April-July 2019-20 were USD 44.45 billion (Rs. 3,08,455.32 crore) which was 5.69 percent lower in Dollar terms (3.03 percent lower in Rupee terms) compared to USD 47.13 billion (Rs. 3,18,091.98 crore), over the same period last year. In this connection it is mentioned that the global Brent price ($/bbl) has decreased by 14.02 percent in July 2019 vis-à-vis July 2018 as per data available from World Bank (Pink Sheet). Non-oil imports in July 2019 were estimated at USD 30.16 billion (Rs. 2,07,522.94 crore) which was 5.92 percent lower in Dollar terms (5.76 percent lower in Rupee terms), compared to USD 47.13 billion (Rs. 3,18,091.98 crore), over the same period last year. Non-Oil and Non-Gold imports were USD 28.45 billion in July 2019, recording a negative growth of 2.22 percent, as compared to Non-Oil and Non-Gold imports of USD 29.09 billion in July 2018. Non-Oil and Non-Gold imports were USD 109.19 billion in April-July 2019-20, recording a negative growth of 4.67 percent, as compared to Non-Oil and Non-Gold imports USD 114.54 billion in April-July 2018-19.

- **Trade In Services:**
  - **Exports (Receipts):** As per the latest press release by RBI dated 14th August 2019, exports in June 2019 were USD 18.55 billion (Rs. 1,28,823.05 crore) registering a positive growth of 9.96 percent in dollar terms, vis-à-vis June 2018. The estimated value of services export for July 2019* is USD 18.76 billion.
  - **Imports (Payments):** As per the latest press release by RBI dated 14th August 2019, imports in June 2019 were USD 11.76 billion (Rs. 81,646.26 crore) registering a positive growth of 14.17 percent in dollar terms, vis-à-vis June 2018. The estimated value of service import for July 2019* is USD 11.92 billion.

- **Trade Balance:**
  - **Merchandise:** The trade deficit for July 2019 was estimated at USD 13.43 billion as against the deficit of USD 18.63 billion in July 2018.
  - **Services:** As per RBI's Press Release dated 14th August 2019, the trade balance in Services (i.e. Net Services export) for June, 2019 is estimated at USD 6.79 billion.
  - **Overall Trade Balance:** Taking merchandise and services together, overall trade deficit for April-July 2019-20* is estimated at USD 32.90 billion as compared to USD 39.38 billion in April-July 2018-19.
### Exports & Imports : (US $ Billion)

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<th>July</th>
<th>April-July</th>
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<td><strong>Exports</strong>(including re-exports)</td>
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<td>2018-19</td>
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### Exports & Imports (Rs. Crore)

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<td>%Growth 2019-20/ 2018-19</td>
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<td>2019-20</td>
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## SERVICES TRADE

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<td>Trade Balance</td>
<td>47,176.79</td>
<td>1,36,584.05</td>
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• **Karnataka Bank Ties Up With Fintech Firm To Offer MFs:**

Karnataka Bank has tied up with fintech company Finwizard Technology, also known as fisdom, to offer wealth management products and services, beginning with mutual funds, through the bank’s ‘KBL Mobile Plus’ app. The tie-up allows the bank customers to invest in any mutual fund. The KBL Mobile Plus app will now offer enhanced interface to help the customer navigate and choose the best-suited funds while having additional services like redemption assistance and live tracking just a click away, the bank said in a press release. The bank has been offering mutual funds since 2006 to its customers. With the tie-up, the bank plans to amplify its reach, and enhance user experience through a digital proposition, the press release added. Bank CEO Mahabaleshwara MS said: “Our focus has always been on leveraging technology to offer the most efficient and innovative service delivery while enhancing our customer value proposition. This tie-up with fisdom will help us go beyond just branch-level engagement and make superior wealth management accessible to all. This is a natural progression in terms of Karnataka Bank's continuous efforts to increase customer engagement and being a single-point to cater to a variety of financial needs a customer has. This tie-up with fisdom is expected to be pivotal in positioning Karnataka Bank as a leader in delivering customer value.” Fisdom co-founder Anand Dalmia said they will leave no stone unturned in delivering a seamless and enhanced wealth management experience to the bank’s customers.


Dated: Aug 02, 2019

• **SBI, Shanghai Becomes First Indian Bank To Link Up With China National Advance Payment System:**

The State Bank of India’s (SBI) Shanghai branch is now connected to China’s National Advance Payment System (CNAPS), becoming the first Indian Bank to operationalize it, a senior bank official said on Friday. The CNAPS, launched in 2008 by People’s Bank of China (PBOC) provides real-time settlement services for all payments cleared in mainland China, as well as in all clearing banks in offshore yuan centers, such as Hong Kong. The CNAPS system is complemented by its international counterpart, the CIPS (China International Payments System or Cross-Border Inter-Bank Payment System), launched in 2015 with the aim of boosting international use of the Chinese currency, yuan. The CIPS already has participants from multiple countries across the globe. The SBI is the only Indian bank to have obtained the license to do business in local currency and also inducted to the CNAPS by the PBOC as on date, K Swaminathan, Chief Executive Officer of SBI, Shanghai told on Friday. The SBI has obtained the PBOC approval in December 2016 for implementation of the CNAPS and after successful installation of various hardware and software, testing it is now connected to the PBOC live system on July 8, 2019, he said. After being a member of the CNAPS, SBI Shanghai can
also offer real time transfer of local funds within China by routing them through the PBOC. It eliminates the need of tie up and maintenance of accounts with multiple Banks for fund transfer, he said. The CNAPS will also be used for cross border RMB payments which are hitherto being made through local correspondent banks. This will also give SBI opportunity to do business of Bankers acceptance drafts (BAD), he said. The SBI has started its representative office in 1997 and began its commercial operation in 2006. Currently, it is the only Indian bank with license to deal in RMB, the local currency, as well as foreign currency. With total customer credit of nearly USD 500 million and staff strength of 40 people that includes 32 Chinese nationals, the bank has always been at the forefront of facilitating India-China trade and investments apart from serving the Indians working in China in the field of IT and others, Swaminathan said. The bank extends bank guarantee facility to Chinese corporates undertaking various construction, tech, and investment projects, he said. The bank has also been extending term as well working capital credit facilities to Indian corporates and companies promoted by Indians in China to facilitate Indian investment in China, he said. The bank has also been an active participant in local syndication arranged by major foreign as well as Chinese banks. Other than the activities on asset side, the bank has been facilitating Indians working in China in their remittance as well as other banking needs, he said.

Dated: Aug 02, 2019

• Jana Small Finance Bank Receives Scheduled Bank Status From RBI:

Jana Small Finance Bank Ltd announced on Thursday it has got the status of a Scheduled Bank from RBI. The Bengaluru-headquartered bank, established as a financial services company in 2009, said it presently operates 260 branches and 338 asset centres serving over 5.5 million customers in different states. The bank’s aim has always been to provide financial inclusion to the underserved sections of the society, including small business units, small and marginal farmers, micro and small industries, its MD & CEO, Ajay Kanwal said. “Becoming a Scheduled Bank is an important milestone for us and this will reinforce our relentless efforts to serve our customers while receiving the faith and trust the customers have reposed to the bank, he said. By the end of the current financial year, the bank - erstwhile Janalakshmi Financial Services (JFS) plans to convert 98 asset centres and 103 Unbanked Rural centres (URCs) into full-fledged bank branches.

Dated: Aug 08, 2019
Loans From NBFCs To Developers Halved In FY19 (CII And JLL Saud):

The liquidity crisis in the NBFC sector was so grave that net loan disbursement by non-Banking Financial Companies (NBFC) and Housing Financing Companies (HFC) to realty developers declined by nearly 50 per cent in 2018-19 on a year-on-year (YoY) basis to an estimated amount of Rs 27,000 crore, a joint report by CII and JLL said on Wednesday. The report observed that default by leading NBFC, IL&FS, in scheduled payments led to a liquidity squeeze in the real estate sector since September 2018. “In FY 2018-19, net disbursals by NBFCs or HFCs to real estate developers declined by almost half from Rs 52,000 crore in FY 2017-18 to an estimated Rs 27,000 crore in FY 2018-19,” it said. The report, however, said that currently the scenario is not as negative as it was even a few months ago. It noted that recovery would take time and the new credit discipline would benefit the real estate sector in the medium-to-long term. “Also, the new government has taken cognizance of struggling NBFCs and introduced a few new schemes,” it said.

Dated: Aug 21, 2019

Moody's Downgrades Yes Bank Rating, Outlook Negative (Moody's):

Global rating agency Moody's Investors Service on Wednesday downgraded YES Bank's long-term foreign-currency issuer rating, citing lower than expected amount of capital raised and a sharp fall in its stock price which “will challenge its ability to raise sufficient capital to maintain the rating at its previous level.” Moody's downgraded YES Bank's foreign currency issuer rating to Ba3 from Ba1, long term foreign and local currency bank deposit ratings to Ba3 from Ba1, foreign currency senior unsecured MTN program rating to (P)Ba3 from (P) Ba1, and Baseline Credit Assessment (BCA) and adjusted BCA to b1 from ba2. It said the outlook on the bank's ratings, where applicable, was negative. The negative outlook primarily reflects the risk of further deterioration in the bank's solvency, funding or liquidity, as the bank continues to work through asset quality issues and rebuilds its loss absorbing buffers In August, the lender has raised around $270 million via qualified institutional placement, and plans to raise $600 million more from large investors to bolster its capital buffers. The board will meet on 30 August to mull raising funds via equities. YES Bank stock has declined over 85% so far in 2019 due to asset quality concerns. At 3.10 pm, the scrip traded at ₹59.30 on BSE, down 7.8% from its previous close. Following the downgrade, private lender's 3.75% USD notes, due February 2023, fell 3.1 cents on the dollar to 86.4 cents as of 05:07 pm in Hong Kong, set for the biggest decline since 28 November, according to prices compiled by Bloomberg. Moody's also expects the bulk of YES Bank's operating profits to get consumed by loan loss provisions over the next 12-18 months, and thus will be unable to support internal capital generation. “This will leave the bank dependent on external capital raising to improve its loss-absorbing buffers, which in Moody's opinion is becoming more challenging given the substantial decline in its share price.” It noted that YES Bank's asset quality deteriorated in the June quarter, with gross non-performing loan ration rising to 5% from 3.2% a quarter ago. Around Rs. 10,000 crore of loans or 4% of its total loans remain on a watch list - meaning...
that these watch list loans may turn into non-performing assets over the next 2-3 quarters. In addition, around Rs. 7,500 crore of bond investments or 10% of its total investment holdings have experienced rating downgrades in the past quarters. Though the bank's funding and liquidity profile has remained broadly stable, it compares weakly to other rated private sector peers in India. Moody's has maintained a negative adjustment for corporate behavior in YES Bank's BCA, which results in a one-notch negative adjustment to the bank's BCA when compared to its financial profile.

Dated: Aug 28, 2019

Digital Payments Growing In India At 12.7% CAGR (KPMG):

Digital payments in India are witnessing thriving growth with a compound annual growth rate (CAGR) of 12.7 per cent in the number of non-cash transactions, global advisory KPMG said on Thursday. A KPMG report said that the mobile payment revolution in the country has led to a boom in the number of merchants adopting digital payments with close to 1.5 million digital payment acceptance locations in 2016-17. Besides, the number of merchants accepting digital payments modes has increased to over 10 million in a short span of two to three years. “The mobile payment revolution with its evolving form factors has led to a boom in the number of merchants adopting digital payments. From close to 1.5 million digital payment acceptance locations in 2016-17, the number of merchants accepting digital payments modes has increased to over 10 million, in a short span of two to three years,” the report “Fintech in India - Powering mobile payments” said. The global digital payments market is expected to touch $10.07 trillion by 2026. QR-code based wallet acceptance points with low setting up costs have been instrumental in driving mass adoption among merchants, thereby increasing convenience for customers as well, creating a virtuous cycle for the ecosystem, the report said. According to KPMG, one of the key factors which played a transformational role and democratized mobile payments in India was the role played by wallet players. The ease of payments, ubiquity and convenience were the factors which have led to extensive adoption of wallets. The mobile wallet market is expected to continue its expansion at a CAGR of nearly 52.2 per cent by volume during 2019-23, it added. Another factor that has led to the next wave in mobile payments is the Unified Payments Interface (UPI) based real time payments. The volume of UPI transactions have increased at a CAGR of 246 per cent during the period from 2016-17 to 2018-19. Some factors such as inter-operability, and possibility of origination across different platforms such as mobile wallets, are further fueling the growth of UPI transactions. Mobile payments have witnessed a major shift in the past five years with the proliferation of payments like UPI, mobile wallets, Bharat Interface for Money (BHIM), BharatQR and Unstructured Supplementary Service Data (USSD), it said. The Reserve Bank of India has forecast an outcome of 50 per cent increase in mobile-based payment transactions as per its ‘2021 vision document’. This shift can be attributed to driving factors such as robust payment infrastructure, evolution of form factors, availability of structured data, shift in consumer behavior and the government's vision of transforming India into a cashless economy. According to the report, while feature phones were limited to USSD, the advent of smartphones and the Internet has opened up a host of form factors and access to payment technologies.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/digital-payments-growing-in-india-at-12-7-cagr-kpmg/articleshow/70890809.cms
Dated: Aug 29, 2019
### TOP RBI CIRCULARS

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