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The international environment is clouded with very challenging conditions. Global growth is slowing down and central banks across the world are bracing up to counter it by easing monetary policy; but there is no recession as yet. Trade wars have pushed world trade into contraction and threaten to morph into tech and currency wars, with no evidence of any significant gains accruing to anyone. Meanwhile, global commodity prices have weakened, with collateral benefits to net commodity importers and terms of trade losses for commodity exporters. The developments emanating from drone strikes on Saudi oil facilities are, however, still playing out. Sporadic flights to safety are driving capital flows out of emerging markets into advanced economy assets; but the universe of negative yielding bonds is growing disconcertingly large, posing a potential threat to financial stability.

**Strengths and Weaknesses:** In this hostile environment, India’s external sector has exhibited resilience and viability. The current account deficit has averaged 1.4 per cent of GDP over the last 5 years and remains comfortably financed in spite of global spillovers imparting risk-on-risk-off volatility to portfolio flows. The level of foreign exchange reserves was at US$ 429 billion on September 13, 2019, sufficient to cover close to 10 months of imports or 21 months of debt of residual maturity up to 1 year. The Indian economy remains a preferred habitat for foreign direct investment (FDI) and is among the top 10 destinations for greenfield projects (Source: FDI Report, Financial Times, 2018). Net foreign direct investment at US$ 18.3 billion in April-July 2019 was higher than US$ 11.4 billion in the corresponding period of 2018-19.

Significant progress has been made in external debt management since the external payment difficulties encountered in 1990 which triggered wide-ranging structural adjustments and reforms. The level of external debt at 19.7 per cent of GDP and the debt service ratio (principal repayments and interest payments as a ratio of current earnings) at 6.4 per cent of GDP are among the lowest in emerging market peers. This places India among the least externally indebted countries of the world, by the World Bank’s classification. In terms of a broader measure of external liabilities – the net international investment position (NIIP) which includes both debt and equity liabilities, net of foreign assets – India’s exposure declined to 15.9 per cent of GDP at end-March 2019 from a peak level of 18.3 per cent at end-March 2015. Foreign exchange reserves covered 76 per cent of external debt and 94.6 per cent of the NIIP at end-March 2019, up from 68.2 per cent and 89.3 per cent, respectively, at end-March 2014. Short-term debt by residual maturity declined to 57 per cent of foreign exchange reserves at end-March 2019 from a peak level of 59 per cent at end-March 2013. Short-term debt by original maturity constitutes barely 20 per cent of total external debt.

These healthy developments are underpinned by the innate strength of India’s
underlying fundamentals. The degree of openness of the economy, measured by the ratio of exports and imports of goods and services to GDP, has risen from 20 per cent in the first half of the 1990s to 44 per cent in the latest five-year period from 2014-19. The share of India's merchandise exports in world exports has gone up from 0.5 per cent in 1990 to 1.7 per cent in 2018.

In line with the expanding share of services in domestic output, India's services exports have grown rapidly over the past two decades. In fact, India's services exports have shown a higher degree of resilience to global shocks than merchandise exports. At US$ 81.9 billion, net services exports financed 45 per cent of India's trade deficit in 2018-19. In the area of traded services, India remains a world leader in software exports and information technology (IT) enabled services, accounting for around 12 per cent of world software exports. India's IT sector, which earned US$ 78 billion through net exports in 2018-19, is leapfrogging into new technologies including artificial intelligence, machine learning and robotics. The Indian diaspora is among the largest in the world and reflecting this, India currently receives the highest amount inward remittances in the world from Indians working abroad. Alongside, accretions to non-resident deposits have provided stable and reliable support to the balance of payments over the years. Financial openness, measured by the ratio of gross capital inflows and outflows to GDP, has increased three-fold from 15 per cent in the first half of the 1990s to 45 per cent during 2014-19.

Notwithstanding these achievements, there are several areas of concern as well which occupy centre-stage in the conduct of external sector management. First, merchandise exports have lost momentum under the weight of the slump in world trade. In spite of export volume growth averaging 4.2 per cent during 2013-18 (UNCTAD, 2019), India's export growth in US dollar terms has weakened – as in a host of emerging and advanced economies - to 2.2 per cent over the same period, as falling unit value realisations have taken their toll. The slowdown in global demand has affected our exports of petroleum products as well – they constitute 14 per cent of total merchandise exports. Second, the deceleration in domestic demand has pulled imports, especially non-oil non-gold imports, into contraction and this has reduced the inflow of intermediates, capital goods and technology that is vital for modernising our infrastructure and industry. Third, portfolio flows, which on average account for about 23 per cent of external financing in a normal year, have turned highly volatile, with net outflows of US$ 0.6 billion in 2018-19. During 2019-20 so far (up to September 13), portfolio equity outflows were of the order of US$ 1.4 billion but lower than US$ 2.9 billion in the corresponding period a year ago. Net inflows into the debt market of US$ 4.1 billion have, however, provided relief. Moreover, these portfolio capital movements have turned out to be conduits of global spillovers, impacting domestic equity, debt and forex markets, and asset prices. Nonetheless, the underlying resilience of India's external sector, anchored by the positive features I set out earlier, have cushioned these shocks and insulated the domestic economy.

Managing the External Sector: Against this backdrop, I would like to turn to several recent initiatives undertaken by the Reserve Bank of India and the Government of India to fortify India's external position and improve the capacity of the economy to deal with the headwinds that confront us in these testing times.

Exports: Exports hold the key to a sustainable balance of payments position. In the final analysis, liabilities in the form of debt and even equities cannot entirely substitute for
foreign exchange earnings from exports of goods and services that create import purchasing power and liability servicing capacity. Over the years, the policy endeavour has been to secure a wide diversification in India's export profile in terms of both products and destinations. In particular, product diversification has enabled India to broaden its export basket relative to BRICS peers and reduce its vulnerability to trade shocks. Apart from diversification, India is now exporting sunrise products like electronics, chemicals and drugs and pharmaceuticals for which demand is expanding at the global level. In the smart phone segment of electronic goods, India has transformed itself from being a net importer to an exporter with the impetus from the phased manufacturing programme.

Looking ahead, several initiatives have been put in place and others are being launched on an ongoing basis to enable export industries to regain productivity and cutting edge competitiveness. They include upgradation of export facilities, integration of Indian farmers and their products with global value chains, and trade facilitation measures. More recently, efforts are going into reimbursement of taxes and duties, including electronic refund of input tax credits in GST. An action plan for 12 ‘champion’ services sectors, including IT, tourism and hospitality, and medical services has been developed since February 2018. The Reserve Bank and the Government are actively engaged in the promotion of e-commerce platforms that will boost the exports of both merchandise and services. All these steps seek to create a more conducive climate for exports.

Capital Flows: With regard to capital flows, India has adopted an approach marked by progressive liberalisation but calibrated to the realities of the domestic situation, including the evolution of financial markets. A diverse range of instruments for managing exchange rate risk for an expanding investor base has come into play. India’s hierarchical policy approach – preferring equity flows over debt flows, and preferring FDI flows over portfolio flows within equity flows and long-term debt flows over short-term flows within total debt flows – has influenced the composition of capital flows.

Turning to equity flows, FDI policy has been progressively liberalised across various sectors in recent years to make India an attractive investment destination. Sectors that have been opened up in recent years include defence, construction development, trading, pharmaceuticals, power exchanges, insurance, pensions, financial services, asset reconstruction, broadcasting and civil aviation. 100 per cent FDI has also been allowed in insurance intermediaries. In August 2019, FDI norms in single-brand retail trade have been further liberalised. FDI up to 100 per cent has been permitted under the automatic route in contract manufacturing and coal mining.

With regard to foreign portfolio investment (FPI), several measures have been undertaken to create an investor-friendly regime and to put in place a more predictable policy environment. FPI limits are now being revised on a half yearly basis under the medium-term framework. FPI has been allowed in municipal bonds within the limits set for State Development Loans (SDLs). Greater operational flexibility has been granted to FPIs under a Voluntary Retention Route (VRR) which facilitates investment in G-secs, SDLs, treasury bills and corporate bonds while allowing investors to dynamically manage their currency and interest rate risks. The initial response to the VRR scheme has been encouraging. The Union Budget 2019-20 proposed to ease KYC norms for FPIs and also merge the NRI portfolio route with the FPI route for seamless investment in stock markets. Outward direct and portfolio investment have also been progressively liberalised to give Indian entities a global scan and presence.
External borrowing norms have also been simplified under two tracks: foreign currency denominated ECBs; and rupee denominated ECBs. The list of eligible borrowers has been expanded to include all entities eligible to receive FDI, registered entities engaged in microfinance activities, registered societies/trusts/ cooperatives and non-government organizations. A rule-based dynamic limit for outstanding stock of ECBs at 6.5 per cent of GDP is in place. Rupee denominated bonds or Masala bonds under the ECB route offer an opportunity to domestic firms to borrow from international markets without the need for hedging exchange rate risk. ECBs up to US$ 750 million or equivalent per financial year are permitted under the automatic route. Recently, end-use restrictions relating to external commercial borrowings have also been relaxed for specific eligible borrowers for their working capital requirements, general corporate purposes and repayment of rupee loans. The mandatory hedging requirement had earlier been reduced from 100 per cent to 70 per cent for ECBs with minimum average maturity period between 3 and 5 years in the infrastructure space. Net disbursement of ECBs rose to US$ 7.7 billion in April-July 2019, as against net repayments of US$ 0.8 billion in the corresponding period of 2018-19.

**Conclusion:** Overall, the outlook for India's external sector is one of cautious optimism, albeit with some downside risks accentuated at this juncture. Among them, deepening of the global slowdown and escalation of trade and geopolitical tensions appear to be the most significant. Volatile international crude prices also continue to pose potential risks to the viability of the current account balance through trade and remittances channels. Yet, there are underlying strengths that can be built upon to buffer the external sector from these risks. The search for new export markets and new niches must go on so as to reap the benefits of changing dynamics of global value chains. Indian IT companies need to accelerate market diversification and invest in new skills and technologies to hone their comparative advantage. Remittances and non-resident deposits are likely to remain shock-absorbers over the medium term and need to be assiduously cultivated, including by ease of remitting/depositing and reducing transaction costs.
Ultimately, the strength of the external sector derives from domestic macrofundamentals. Investors and markets need to be credibly assured of our ability to maintain macroeconomic and financial stability through continued focus on these areas. At the same time, we need to persevere with structural reforms in various sectors of the economy to unlock productivity and competitiveness gains. The overarching objective should be to keep the current account deficit within sustainable limits and financed by a prudent mix of debt and equity flows. As I stated earlier, the global environment is challenging, but it offers opportunities as well. By the IMF’s assessment, India will account for a sixth of global growth in 2020. Trade wars are presenting new business relocation avenues that seem to be favorable to India from the point of view of the economies of scale and scope. Indian entrepreneurship, the rupee and our people are progressively but inexorably internationalizing. Since 2018, India’s working age population has grown larger than the dependent population, and this demographic advantage is expected to last till 2055. In this milieu, prudent external sector management with a close and continuous vigil on areas of external vulnerability assumes critical importance and will continue to receive RBI’s close attention.

TOP BANKING NEWS

• Bank Mergers And Minor Policy Changes Won’t Revive Economy:

India’s GDP growth slowed to 5% in the April-June quarter, the slowest since the scam-hit days of UPA-2. From 8.2% a year ago, growth has fallen sharply quarter after quarter. This is the combined effect of a cyclical global downswing and serious structural flaws that are pulling down long-term growth. Exports, which revived in 2018 after five years, are falling again. Manufacturing growth has sunk to just 0.6%. Investment has slumped. The bad loans of banks are shrinking too slowly, and the current slowdown threatens to expand them again. The crisis in non-banking financial corporations arising from the collapse of IL&FS is still not over. Meanwhile, budget follies have sent foreign portfolio fleeing from India, with the Sensex plummeting 3,000 points. Last week, Finance Minister Smt. Nirmala Sitharaman announced an economic revival package. Alas, this is too little too late. The package may be a short-term palliative. But only major structural reforms can tackle the fundamental flaws slowing long-term growth, and there is no sign of these. Several weaker public sector banks have been merged with strong ones. The total number of public sector banks is now down to 12 from 27 two years ago. Optimists hope the mergers will provide scale economies, and improve management in the worst banks. For years, the worst banks had been put under PCA (prompt corrective action) by the RBI, meaning they could collect deposits but do very little commercial lending, so bad was their lending record and so high were their non-performing loans. To soak up past losses and recreate lending ability, the government has pledged to give Rs 70,000 crore for bank recapitalization, buttressing the bank mergers. This will be a short-term reprieve. But only structural change will prevent public sector banks from sliding downhill again. Simply freezing
lending by the worst banks was never a long-term solution. They could have been closed. Or, the bulk of dum loans of the whole banking system could have been transferred to a separate “bad bank”, letting the system lend freely again. Instead finance minister Sitharaman has merged the worst banks with the better-managed ones, hoping to improve management quality and risk-taking skills. Will this really end the culture of giving dubious loans because of political pressures and lack of lending skills? Sitharaman wants banks to be professionalised, hiring risk managers at high commercial wages from the private sector. Alas, many efforts at professionalising banks have failed because that is simply not compatible with the political and bureaucratic culture of the public sector. Past mergers of weak banks with strong ones have not been encouraging. The merger of Punjab National Bank with the troubled New Bank in 1993 was messy and failed to create significant synergies. Early this year, the strong Bank of Baroda was merged with the weaker Vijaya Bank and Dena Bank, but post-merger performance shows little obvious improvement, and its share price has slumped from Rs 150 a year ago to Rs 92. The danger of mergers is that instead of the strong banks lifting the weak, the weak ones may sink the strong. There is an old story about Nobel laureate George Bernard Shaw and a beautiful actress who was an admirer of his. The actress suggested they should get married, saying, “How fantastic it will be to have children with your brains and my looks!”. Shaw retorted: “And what, madam, if they have your brains and my looks?” Other measures supposed to boost the economy include killing an ill-designed “angel tax” that hit investors in start-ups. The income tax surcharge on capital gains, which had caused a flight of foreign portfolio investors, was withdrawn. Also reversed was the ill-conceived move to criminalise shortfalls in spending by corporations on corporate social responsibility. Marginal tax breaks were given for buying autos and trucks. The complex rules for foreign investment in retail were eased slightly. Additional liquidity was provided for banks and NBFCs. While these measures are in the right direction, they are minor short-term fixes that ignore the structural reasons for India’s economic slowdown. Compared with its Asian competitors, India has some of the most costly land, capital, labour, electricity, railway freight, corporate tax and income tax. This has made India a highcost country that cannot compete. Third-rate graduates from useless colleges are failing to provide the skills and productivity that firms badly need. The government does not acknowledge the structural problem, let alone tackle it. Modi found that incremental reforms in his first term sufficed to produce 7% growth and win re-election. If he thinks the same approach will succeed in his second term, he is in for a rude shock.

Dated: Sep 01, 2019

- **SBI Card To Soon Issue RuPay Credit Cards, CEO Shri Hardayal Prasad:**

SBI Card will soon launch RuPay credit cards, a development which will give a boost to the homegrown payment network in the fast growing segment. Presently, the creditcard segment is dominated by the US-based payment gateways like Visa and MasterCard. RuPay is the first-of-its-kind domestic debit and credit card payment network of India developed by National Payments Corporation of India (NPCI), an
umbrella organization for operating retail payments and settlement systems. “We will be (Launching RuPay based credit card) soon. There is a last agreement that is left out at the end of NPCI level. I think NPCI is going to send it any day and we will be launching some products,” SBI Card MD and CEO Hardayal Prasad said in an interview to PTI. Expressing confidence that RuPay credit card will be launched in this fiscal only, Prasad said, “It’s just a matter of time. The Rupay will become very popular and will be used in India aggressively. I have no doubts on it”. He said that there is a big “nationalistic segment” which is insisting on RuPay cards. About one-third of the cards being issued by India’s largest lender State Bank of India are RuPay cards, he said. “There are class of customers who want RuPay card. There are those nationalistic people who say ‘give us only Rupay cards’. So I am very upbeat,” he said. The company may issue both RuPay as well as Visa/Mastercard to its customers, specially who travel abroad, Prasad said. As of now, RuPay cards are accepted only in few countries, including Singapore and Bhutan. Prime Minister Narendra Modi recently launched the card in UAE. RuPay has also tied-up with international players like Discover, Japan Credit Bureau and China Union Pay to enhance its international acceptance. Prasad further said that SBI Card has rolled out its chat-bot ‘ILA’ (Interactive Live Assistant) on its mobile app to further enhance consumer experience. ILA has 40 plus innovative features making SBI Card one of the first in the industry to offer a complete suite of self-service functionalities increasing convenience for the customers, he said. “Since its release, SBI Card’s chat-bot has successfully resolved over 14 million queries with over 97 per cent accuracy,” he added. SBI Card had 90 lakh customers at end-July with a market share of 17.9 per cent. According to Prasad, the company has been adding 3 lakh cards per month since December 2018.

Dated: Sep 01, 2019

- **There Will Not Be Single Job Loss Due To Merger Of Banks:**

Finance Minister Nirmala Sitharaman on Sunday allayed fears of job losses following the proposed merger of public sector banks, saying not even one employee shall be removed following the amalgamation. “Absolutely, ill informed. I want to assure every union in every one of these banks to please recall what I have said last Friday. When we spoke about amalgamation of banks I have very clearly underlined the fact that there shall not be one employee removed. Not at all”, she told reporters here. She was replying to a question on the bank employees unions opposing the merger plan on the ground it would lead to loss of jobs. Sitharaman 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 the government looked to boost economic growth from a five-year low. Sitharaman, who was here to address officers of Customs, Goods and Service Tax and Income Tax department, said there would not be any closure of banks and no bank was being asked to do something new. “More capital is being given to banks and they will continue to do more of what they were doing earlier,” she said. On August 23, Sitharaman had announced a raft of measures to boost the economy, including capital infusion of Rs 70,000 crore into public sector banks. She had also unveiled a mega
plan on Friday to merge 10 public sector banks into four to create fewer and stronger global-sized lenders. The All India Bank Employees’ Union had alleged that Indian Bank may face closure following its merger with Allahabad Bank. To a question on this, Sitharaman said Indian Bank would be the anchor bank after the merger. She said when a bank receives capital, it is for them to function more of what they were expected to do as core business, which was to attract business and lend. “Second, another bank in this region is Indian Overseas Bank which continues without any amalgamation added to it. It is also something you should keep in mind”, she said. Asked whether there was any slowdown in the economy, she said the government was responding to it sectorally, based on their requirement. “Every sector of the Indian economy, when it approaches us, we hear them out for solutions that they want and we respond to it. Suggestions (from them) and what would they want and what they expect from the government of India and I respond to them. I have already done (it) twice and I will do so more number of times. Every industry which has approached me I will respond”, she said. Citing an example, she said the automobile sector was in a transition phase to produce engines and components meeting BS-VI fuel norms (from the earlier BS-IV), which comes into effect from April 1, 2020. The Minister said it was not the union government’s decision, but a Supreme Court order two years ago that automobile companies shall not produce any BS-IV vehicle after March 31, 2020, be it scooters or any other vehicle. To a query about the automobile industry seeking a Goods and Service Tax rate cut, she said it should be decided by the GST Council. Asked what was her message to people who had lost their jobs and those fearing job losses, Sitharaman said, “I can only say we are responding to the industry requirements. Across the board there is no one particular answer that I can give, saying this is the magic wand. Sectorally, what they want, we are responding,” she said. Sitharaman said the government understands that the contours and tone of issues for each sector varied from one to the other. “The automobile (sector) has an issue, agriculture has a different issue. So each sector has a sectorial requirement which we want to respond”, she said.

Dated: Sep 01, 2019

• Why India’s Mega Bank Mergers May Not Yield The Desired Results:

I am not saying we maintain a Panglossian countenance, that we smile away every difficulty. But, in any real economy, the mood is very important,’ observed Reserve Bank of India governor Shaktikanta Das, speaking at an event in Mumbai late August. Sound advice. Sentiment matters. Irrational despondency can be as damaging for the economy as ‘irrational exuberance’. But even the best Pollyannas will find it difficult to smile in the face of fresh evidence from the Central Statistics Office (CSO) that the economy is in deeper trouble than GoI has cared (dared?) to admit so far — GDP grew by just 5%, a 25-quarter low, during Q1 2019-20. The last time growth slipped to a comparable low was in Q1 2013, when the UPA government under Manmohan Singh was battling charges of ‘policy paralysis’ following the Comptroller and Auditor General (CAG) report on the coal block scam. Afar from flattering comparison.
design or fortuitously, GoI was saved the blushes. Thanks to finance minister Nirmala Sitharaman’s announcement of a mega merger of public sector banks (PSBs), media attention was diverted from dismal growth numbers to bank mergers. Despite the fact that the proposal may have had merit when it was mooted by the Narasimham Committee 27 years ago, it is no longer regarded as the final word on the ideal size of banks. Indeed, one of the biggest learnings from the 2007-08 global financial crisis is that large banks could pose systemic risks that endanger the entire economy. On the contrary, small is beautiful. That may not gel with the image of a muscular government. But whatever the reason, after the shotgun weddings brokered by the finance ministry, the number of PSBs will shrink dramatically: from 18 as on date (27 in 2017) to around dozen. But as with all mergers, especially those that are board-driven only in name, the cost-benefit trade-offs are far from obvious. The benefits are highly questionable. But the pain and cost are real, and are likely to prove enduring. Ask any Punjab National Bank (PNB) official who lived through the trauma of its merger with New Bank of India back in 1993. Despite the ‘common’ culture of the two Delhi-based banks, it took years for PNB to recover from the ill-effects of being a reluctant suitor. Even if one is willing, for the sake of argument, to give the benefit of the doubt to the business rationale of the mergers, there’s no getting away from the nagging sense that the timing is most unfortunate. At a time when PSBs across the board should be focusing on revival of bank lending and recovery of bad loans remember the Insolvency and Bankruptcy Code (IBC) process is yet to stabilize PSB managements accounting for close to 82% of PSB business and 56% of all bank business will, instead, be engaged in trying to see mergers through. Tackling a New NPA Take the merger between Chennai based Indian Bank and Kolkata-based Allahabad Bank. It is a no-brainer that much of management bandwidth in the next few years will be spent trying to make the merger work. True, bank unions are no longer the force they once were, but even so. Caught between outraged cries of ‘Cholbe na!’ (Won’t allow this!)in Allahabad Bank and ‘Muddiya du’ (Cannot be done) in Indian Bank, senior management of the merged entity will have its hands full. Meanwhile, the more important business of banking will take a back seat. As with the similarly illtimed demonetization, recovery will suffer a setback. Unfortunately, GoI seems to be blind to the risks. The need of the hour is higher credit growth. Upfront recapitalization of PSBs to the tune of Rs 55,000 crore (out of Rs 70,000 crore promised in the Budget) would have spurred credit growth with multiplier benefits for investment and growth. But that’s not going to happen if the bulk of the PSB universe is grappling with existential angst. Consequently, even though Sitharaman has largely delivered on her promise to front-load capital infusion into PSBs to ‘nudge an additional lending of Rs 5 lakh crore’, this is unlikely to happen. At a time when Q1 GDP numbers clearly show we don’t have any time to lose, this is akin to shooting ourselves in the foot. Economists might argue it is important to first analyze the nature of the slowdown whether it is cyclical or structural, since that will decide the policy response. But it is difficult to disentangle cyclical from structural factors, and as the slowdown continues and reports of job losses become a daily phenomenon, academics must take a back seat. As Deng Xiaoping, noted for opening up the Chinese economy, had famously said, ‘It doesn’t matter if the cat is black or white as long as it catches mice.’ What is clear is that when
gross fixed capital formation has been falling quarter on quarter, and the private sector is shy of investing, there is no alternative but for GoI to invest. Ideally by reorienting expenditure towards capital, rather than revenue expenditure. But if that is not possible, by easing up on the fiscal deficit target. And in a bank-oriented economy, by allowing PSBs to support growth by not pushing pointless bank mergers.

Dated: Sep 02, 2019

• **Banks May Take 3 Years For Tech Merger:**

Banks may take 2-3 years to standardize core technology, products and customer applications after the government proposed to merge some prominent public sector lenders last week, analysts said. “The integration process would take 24-36 months. Website, mobile apps, IVR all have to get merged into one. While you are doing this, cyber security becomes an important matter to look into,” said Sanchit Vir Gogia, chief executive, Greyhound Research. During the integration, the lenders will generate huge amounts of data and analytics will play a bigger role to create 360-degree user profiles, taking data from multiple banks, Gogia said. A senior executive at a multinational tech services firm said even if the core banking platforms are the same, each would require customization. Beyond technology integration, banks will need a better communication strategy. “Though amalgamation of banks and integration of technology is not new, the risk lies with the ‘unknown unknowns’. For example, there were differences in technology integration in the risk profile, asset portfolio for banks in the Middle East and the US,” said Sid Pai, a tech services consultant who has closely witnessed such amalgamations globally. Tech companies have deployed a large number of people during such mergers and it has resulted in long-term contracts for these companies, Pai said. “The backend integration is so huge. The closest comparison you could think of is the amalgamation process at State Bank of India,” he said. Banks may have the same core banking software, but they will have to synchronise financial products and integrate other backend technology. For example, Punjab National Bank is going to amalgamate with Oriental Bank of Commerce and United Bank of India, and they run on Infosys’ Finacle core banking system. Indian Bank is merging with Allahabad Bank, and they use TCS’ BaNCS software. Infosys and TCS, which both have a significant presence in the banking software space, did not respond to detailed queries by ET. “If they use the same core banking system, the task becomes easier. But, it is not going to be easy, there are similarities, but there is uniqueness as well in terms of products,” said Gogia of Greyhound Research. Apart from integrating technology, banks have to deal with cultural differences. “All these banks are part of the same jungle, but they are not the same animal,” Gogia said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/banks-may-take-3-years-for-tech-merger/articleshow/70943295.cms
Dated: Sep 02, 2019

• **Anchor Banks, Smaller Peers Prepare The Ground For Mega Mergers:**

Following last Friday’s announcement on merging multiple, anchor banks, including Punjab National Bank, Union Bank of India, Canara Bank and Indian Bank, are preparing
the ground for the upcoming exercise, beginning with board meetings to consider the proposal. Apart from these bank, boards of their smaller counterparts, to be merged into anchor banks, will soon meet as well, according to regulatory filings. In the case of Baroda’s merger with Dena Bank and Vijaya Bank announced in September last year, boards of these state-run banks ratified the merger in no time. Finally, the share swap ratio was announced in January and the merger became effective since 1 April. Last Friday, finance minister Nirmala Sitharaman announced the merger of Punjab National Bank, Oriental Bank of Commerce and United Bank with business worth Rs. 7.95 trillion to make India’s second-largest bank. The other merger will be between Canara Bank and Syndicate Bank, which will make the country’s fourth-largest bank, with Rs. 15.2 trillion in business. Also, Union Bank of India will be merged with Andhra Bank and Corporation Bank to build India’s fifth-largest public sector bank with Rs. 14.59 trillion in business. Indian Bank will be merged with Allahabad Bank to make India’s seventh-largest PSB with a business of Rs. 8.08 trillion. Trade unions representing various sections of bank employees, however, criticised the move, calling for nationwide protests against the mergers. The United Forum of Bank Unions (UFBU), an umbrella body of nine bank unions, will meet on 11 September in New Delhi to decide the course of action, including bank strikes and other forms of protests. “Big banks do not necessarily mean strong banks,” said C.H. Venkatachalam, general secretary, All India Bank Employees’ Association. Venkatachalam said the board meetings would just be formalities and the ratified proposal will then go to the Reserve Bank of India (RBI) and Parliament for final approvals. One of the banks tried to assuage employee concerns and ruled out job losses and branch closures. Padmaja Chunduru, managing director and chief executive, Indian Bank, said in a statement on Sunday that the merger of Indian Bank and Allahabad Bank will create a robust amalgamated entity with a pan-India presence. “Indian Bank currently has a strong presence in South India, whereas Allahabad Bank is present in northern and eastern India. This will also enable major scaling up of both the banks’ business due to complementary networks since currently both use the same CBS platform (BaNCS), thereby enabling quick realisation of gains,” Chundru said. However, in public sector bank mergers, some employees are given the option of taking voluntary retirement. Around 260 employees from Dena Bank had chosen to retire instead of joining Bank of Baroda. In April 2017, State Bank of India (SBI) merged five of its subsidiaries with itself. This process, which made SBI one of the world’s top 50 large banks in terms of asset, saw 4,000 employees from SBI and the associate banks opting for voluntary retirement. After the merger announcement, credit rating agency Moody’s Investors Service said in a note that while consolidation will provide scope for improvement in corporate governance, there will not be any immediate improvement in credit metrics since all of them have relatively weak solvency profiles. “These measures, though, are incremental rather than structural, and the quality of their implementation will determine their effectiveness,” according to Srikanth Vadlamani, vice-president, financial institutions group, Moody’s Investors Service. The government will also infuse about Rs. 55,250 crore into state-owned banks but Sitharaman said these were “absolutely approximate numbers”. In FY19, the government had infused over Rs. 1 trillion in public sector banks with the
last round of Rs. 48,239 crore in February. Since FY14, the government and the Life Insurance Corp of India have infused Rs. 3 trillion in PSBs. Interestingly, although the government had given a year’s extension to Bank of Baroda chief P.S. Jayakumar last year owing to the merger, heads of Canara Bank and Punjab National Bank are unlikely to get an extension when their terms end in the next few months. The Banks Board Bureau (BBB) has already invited applications for the post of Managing Director (MD) and Chief Executive Officer (CEO) for these two banks.

Source: https://www.livemint.com/industry/banking/anchor-banks-smaller-peers-prepare-the-ground-for-mega-mergers-1567408164239.html
Dated: Sep 02, 2019

• **DBS Revises India’s GDP Growth To 6.2% For FY20:**

Singapore’s banking group DBS has revised India’s real GDP growth forecast downwards for the current financial year to 6.2 per cent from 6.8 per cent projected earlier. “Factoring in a weak start to FY20 (June quarter was the first quarter), a return to favorable base effects in 2HFY20, and likelihood of growth returning above 6.5 per cent towards end of the year, we revise down our real GDP growth forecast to 6.2 per cent YoY vs 6.8 per cent previously,” said the bank in its report on Monday. The resultant negative output gap will keep inflationary pressures in check. Expecting the trajectory to improve in FY21, the growth is likely to close in on 7 per cent with a 6.8 per cent growth pace, said DBS in the report titled “India: More policy support likely after weak Q2 growth”. For monetary policy, limited fiscal implications from the latest fiscal measures keep the door open for further easing, said Radhika Rao, economist at DBS Group Research.

“We retain our call for another 15-25 bps cut at the October meeting on the back of a weak 2Q GDP outcome. Odds of further rate cuts are rising as a preference to preserve policy space might be overridden by growth concerns. “We now expect another 15-25 bps rate cut in December. Challenging global conditions and a dovish FOMC add to the case for the RBI to take a growth supportive stance,” Rao said. More sector specific supportive measures from the government are expected. Fiscal costs will be kept to a minimum. However, if the slowdown seems entrenched, broader stimulus can be expected next year, said the report. For the markets, worries over fiscal support and new 10-year issuance will put pressure on old 10-year prices. Rest of the curve is likely to ease as rate cut expectations are set to return, thereby steepening the yield curve. The rupee will continue to watch CNY (Chinese Yuan Renminbi) movements and broader US dollar bias, which at this juncture points towards further rupee weakness owing to a weak global environment, according to the report. Real GDP slowed to 5 per cent Year-on-Year in 2Q (First Quarter of FY20) from the first quarter’s 5.8 per cent, below DBS’ sub-consensus and market expectations.

Dated: Sep 02, 2019

• **Finance Ministry Expects Remaining Four PSU Banks To Be Out Of PCA Framework This Fiscal:**

The finance ministry expects the remaining four public sector lenders to be out of the RBI’s Prompt Corrective Action (PCA) framework with the recent round of capital infusion. Currently, Indian Overseas Bank (IOB), Central Bank of India, UCO Bank
and United Bank of India are under this framework which puts several restrictions on them, including on lending, management compensation and directors’ fees. The government on Friday announced capital infusion of Rs. 10,800 crore into these four banks, with IOB getting the highest amount of Rs. 3,800 crore. Central Bank of India will get Rs. 3,300 crore, UCO Bank Rs. 2,100 crore and United Bank of India Rs. 1,600 crore. “This regulatory capital is so much that it will enable four banks to come out of PCA framework this year,” Finance Secretary Rajiv Kumar told PTI. “United Bank would come out of because of merger, while government has given enough capital to IOB, Central Bank of India and UCO Bank which will help them to come out of the PCA framework,” he said. Last week, the government announced consolidation of 10 Public Sector Banks (PSBs) into four mega state-owned lenders, including amalgamation of Oriental Bank of Commerce and United Bank of India with Punjab National Bank. Earlier this year, RBI removed five banks- Bank of India, Bank of Maharashtra, Oriental Bank of Commerce, Allahabad Bank and Corporation Bank from the PCA framework in two phases after capital support from the government that resulted in improvement in their financial parameters. The capital infusion helped these lenders meet requisite capital thresholds and reduced their net NPA levels to below 6 per cent. Out of 11 banks put under the PCA framework last year, Dena Bank ceased to exist as a separate entity after its merger with Bank of Baroda in April, while IDBI Bank has been acquired by LIC. Regarding the time-frame for the remaining banks to come out of the PCA framework, the Finance Secretary said the decision has to be taken by the RBI based on its assessment. Following a host of initiatives taken by the finance ministry, the banking sector witnessed a reversal in the deteriorating bad loan situation with reduction of NPAs by 1.06 lakh crore and record loan recovery of Rs.1.21 Lakh Crore in the last fiscal.

Dated: Sep 02, 2019

• PNB Board To Consider Rs 18,000Crore Capital Infusion This Week:

Punjab National Bank (PNB) on Monday said the board will consider capital infusion of up to Rs 18,000 crore in its meeting later this week. It comes against the backdrop of the government’s announcement on August 30 about merging 10 Public Sector Banks into four entities, as part of which PNB will merge Oriental Bank of Commerce (OBC) and United Bank of India (UBI) with itself. “The board shall consider capital infusion up to Rs 18,000 crore in its meeting scheduled on September 5, 2019,” PNB said in a regulatory filing. On August 31, PNB said it received a communication from the finance ministry that the government, after having consultation with the Reserve Bank of India, had decided that PNB, OBC and UBI may consider the amalgamation of OBC and UBI into PNB. “Accordingly, a meeting of the board of directors to consider the amalgamation will be convened by the bank shortly,” PNB had said. The mega merger plan of Public Sector Banks (PSBs) is being seen as the biggest consolidated exercise in the banking space, aimed at making them lenders of global size and scale. Among others who are part of this exercise include merger of Syndicate Bank into Canara Bank, Allahabad Bank into Indian Bank and consolidation of Andhra Bank and Corporation Bank with the Union Bank of India. With this, the number of government-owned banks in India will...
come down to 12 from 19 earlier. In April 2017, State Bank of India had merged its six associate banks and Bharatiya Mahila Bank with itself. While that last fiscal witnessed amalgamation of Vijaya Bank and Dena Bank into Bank of Baroda.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/pnb-board-to-consider-rs-18000-crore-capital-infusion-this-week/articleshow/70949408.cms
Dated: Sep 02, 2019

• Public Sector Bank Heads Told To Reform Boards:

The Department of Financial Services has asked heads of all state-run banks to initiate the process of reforming their boards in line with governance changes announced by finance minister Nirmala Sitharaman on Friday as part of the mega banking reform package. “With a view to institutionalize accountability for observance of approved risk appetite, the bank may give the risk committee of its board a mandate to periodically review adherence to the risk appetite framework of the bank and to fix accountability in the event of breach of approved risk appetite,” the Financial Services Department said in a letter sent to state-run banks, seen by ET. The letter asked the banks to form a risk management committee, and to combine the nomination and remuneration committees. Sitharaman had on Friday announced a slew of measures including consolidation of 10 state-owned lenders into four that seek to change the banking landscape. Consolidation will be accompanied with significant governance reforms. She said the management will decide on the appraisal of top officials, instead of a single person. The management will be accountable towards to the board of the PSBs, by way of the board appraising the general manager and above ranks, including the managing director. As part of the reforms, she also said banks will be allowed to hire chief risk operators at market-linked compensation, and were not bound to the government-allocated salaries. The government also allowed bank boards to decide individual development plans for senior executive positions to ensure a smooth transition when the senior executive leaves or retires. The risk management committee will be governed as per a Risk Appetite Framework. The framework will consist of risk limits for the respective banks, policies and procedures for material as well as reputational risks, and clearly defining the committee members’ roles.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/psb-heads-told-to-reform-boards/articleshow/70951939.cms
Dated: Sep 03, 2019

• PNB To Consider Rs 18kCr. Fund Infusion This Week:

Punjab National Bank (PNB) on Monday said the board will consider capital infusion of up to Rs 18,000 crore in its meeting later this week. It comes against the backdrop of the government’s announcement on August 30 about merging 10 public sector banks into four entities, as part of which PNB will merge Oriental Bank of Commerce (OBC) and United Bank of India (UBI) with itself. “The board shall consider capital infusion up to Rs 18,000 crore in its meeting scheduled on September 5, 2019,” PNB said in a regulatory filing.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/pnb-to-consider-rs-18k-cr-fund-infusion-this-week/articleshow/70953185.cms
Dated: Sep 03, 2019
**India Plans Mega Banks But Analysts Say Bet On Rivals Instead:**

Equity analysts predict that India’s move to merge several of its state banks will slow their loan growth, and many brokers advise buying shares of the lenders’ rivals who stand to benefit from the uncertainty. While the mergers will reduce the number of state-owned banks to 12 from 27 and are aimed at creating bigger and healthier lenders, the time needed for integration and challenges related to staff, branch and process overlaps are expected to be the main immediate risks. Prime Minister Narendra Modi’s government late Friday surprised analysts by announcing a series of mergers that will create four new lenders that will hold business worth 55.8 Trillion Rupees ($781 billion) or about 56% of the Indian banking industry. The announcement came minutes before data showed economic growth in Asia’s third-biggest economy slumped to a six-year low of 5%, below the weakest estimate of 39 economists polled by Bloomberg. Futures contracts on India’s Nifty 50 Index dropped 1% in Singapore on Monday, when local markets were shut, indicating the broader stock market may decline when they open for trade on Tuesday. Here is what some of the analysts are saying:

Mergers will keep state-run banks “busy in the integration process for a prolonged period and thus help private banks further consolidate their business market share,” Emkay Global analysts Anand Dama and Rahul Malani wrote in a note dated Sept. 3. Emkay downgrades Indian Bank to hold from buy, and maintains sell on Punjab National Bank, Canara Bank and Union Bank, citing merger overhang. The analysts retain buy on SBI and a positive bias toward private banks, with ICICI Bank and HDFC Bank as top picks among large stocks. “Consolidation comes with its own set of challenges in HR, process integration, branch rationalization,” analysts led by Kunal Shah at Edelweiss Securities Ltd. in Mumbai, wrote in an investor note on Friday. “Ideally, value lies in places outside the involved banks and within this space, we like State Bank of India as it is better positioned to grow,” they wrote. “We have observed that historically, when state-owned banks merge, smaller banks’ loan-book growth slows sharply, as the primary focus of management shifts to integration,” Vishal Goyal and Ishank Kumar, analysts at UBS Securities India Pvt., said in a note on Saturday. ICICI Bank Ltd. and Axis Bank Ltd. remain UBS’s most-preferred picks. The mergers may not be favorable for the smaller lenders based on the share-swap ratios decided in past state-owned bank combinations, analysts led by Adarsh Parasrampuria at Nomura Financial Advisory & Securities (India) Pvt., wrote in a note on Saturday. “We continue to prefer private corporate banks such as ICICI and Axis Bank and we see value in State Bank, where merger-related uncertainty will not be there.” “Consolidation is a good long-term move, but could weigh on near-term growth and potentially worsen the credit crunch,” analysts led by Sumeet Kariwala at Morgan Stanley wrote in a note on Monday. The brokerage remains underweight on Punjab National Bank and Canara Bank. Mergers are “unlikely to revive credit growth,” Credit Suisse Group AG’s analysts Ashish Gupta and Kush Shah wrote in a note on Monday. “Given the limited flexibility on restructuring and rationalization, meaningful cost synergies from PSU bank mergers are unlikely,” the note added. Citigroup Inc. said the mergers “are significant and should strengthen the banking system in the medium to long term.” Fewer banks will mean the government’s capital infusion will be concentrated and
will aid in talent management, analysts including Manish Shukla wrote in a note, upgrading shares of Bank of Baroda Ltd. to buy from neutral. “Near-term impacts could potentially be slower growth but faster NPL resolution, while medium-term impacts could include lower lending spreads in segments where SOE banks are market leaders,” Goldman Sachs Group Inc.

Dated: Sep 03, 2019

• **Government Set To Bail Out IDBI As Part Of Rs 9,000 Crore Plan:**

IDBI Bank is set to get a fresh lifeline of Rs 9,000 crore, with the government planning to pay its share of the bailout money that Life Insurance Corporation has been seeking for the past several months. While LIC, which is the majority owner of IDBI Bank, will have to cough up close to Rs 4,500 crore as its share, the government is expected to chip in with a matching contribution, sources told TOI. The money will be released as part of the Rs 70,000 crore bank recapitalization plan, of which over Rs 55,000 crore has already been earmarked for the state-run lenders led by the entity to be created by the merger of Punjab National Bank, Oriental Bank of Commerce and United Bank of India, which will receive Rs 16,000 crore, according to initial estimates released on Friday. Sources said the fresh support to IDBI will help it tide over the latest financial crisis, given that it has a massive pile of non-performing assets (NPAs), which on a gross basis was estimated at over 29% of advances on June 30. The bank has been in the red for the last 11 quarters, despite the management and the government repeatedly suggesting that the worst is over. Its capital base has been eroded and the capital adequacy ratio was estimated at 8.1%. The poor show has meant that the bank faces restrictions on expansion and lending under the Reserve Bank of India’s Prompt Corrective Action framework with even LIC, which acquired a majority stake from the government, is unhappy with the state of affairs. After all, the insurer has already pumped in close to Rs 20,000 crore to acquire a majority stake. LIC has seen a significant value erosion, with IDBI Bank share price plummeting from Rs 56.5 when the stake acquisition was completed in late January to Rs 26.7 on Friday. LIC had made an open offer at Rs 61.7 to acquire a 26% stake in the erstwhile development financial institution, which has seen many twists and turns since the government decided to convert it into a universal bank at the start of the millennium. Over the years, it has lost its expertise in offering long-term project finance and has not been able to expand its retail footprint at a brisk pace. LIC is, however, happy with IDBI Bank’s ability to hawk its insurance products, which has also prompted the lender to scout for suitors to acquire its stake in IDBI Federal, a joint venture insurance company.

Dated: Sep 03, 2019

• **Shri Anil Ambani’s Shipyard Risks Insolvency As Banks Spurn Debt Plan:**

The shipyard controlled by embattled Indian tycoon Anil Ambani is facing the prospect of bankruptcy after failing to get creditors’ approval for restructuring Rs 7,000 crore ($970 million) of debt, people familiar with the matter said. India’s bankruptcy
tribunal will consider putting Reliance Naval & Engineering Ltd. in bankruptcy on Wednesday as no new repayment plan was submitted after lenders led by IDBI Bank Ltd. rejected an earlier offer in July, the people said, asking not to be named as the information is not public. The court can also defer the decision on bankruptcy. Any court ruling favoring the banks would deal another blow to the tycoon's stressed empire after his wireless carrier slipped into insolvency earlier this year. The revival of the shipyard is crucial for the tycoon, who's betting on potential cash flows from government defense contracts as Prime Minister Narendra Modi plans billions of dollars in spending on national security. While IDBI had sought to move Reliance Naval into insolvency in September 2018, a decision was delayed after industry bodies representing power-generating companies, shipyards and sugar mills successfully challenged the RBI directive that required delinquent borrowers to be pushed into bankruptcy. However, the risk of bankruptcy re-emerged for the submarine maker after it failed to come up with a repayment plan even under RBI's relaxed norms. Representatives for Reliance Naval and IDBI Bank didn't respond to emails and phone calls seeking comments. The warship maker's loan-recast plan that was rejected in July proposed banks converting part of the debt into equity after the RBI eased rules to provide lenders more discretion in dealing with soured debt, the people said. The plan didn't involve any upfront payments and proposed a transfer of banks' non-fund exposures such as guarantees and letter of credits from Reliance Naval to another Ambani company Reliance Infrastructure Ltd., the people said. Meanwhile, Anil Ambani's wider conglomerate is planning to dispose of assets spanning roads to radio stations, aiming to raise about Rs 21,700 crore ($3 Billion) to help pare debt that has ballooned to about 939 billion rupees at four of its biggest units excluding the telecom business Reliance Communications Ltd.

Dated: Sep 03, 2019

• ICICI Bank targets 23% growth in retail loan disbursement in UP in FY20:

ICICI Bank has set the target for retail loan disbursement at Rs 4,900 crore in Uttar Pradesh for 2019-20, marking a growth rate of 23 per cent over the last year, a senior bank official said on Tuesday. ICICI Bank executive director Anup Bagchisaid that two major segments of retail loans - consumer loan and mortgages - are set to grow at a rapid pace in the state this financial year. The target of Rs 4,900 crore “will mark a 23 per cent growth year-on-year”, Bagchi told reporters here. Bagchi said that retail consumer loans have witnessed significant growth in Uttar Pradesh over the last few years. “We are focusing on consumer loans and home loans to grow in the state,” he said. He clarified that cities like Noida and Ghaziabad are not included in the target as these places come under the bank’s NCR region. “The bank
ICICI aims to achieve this growth by expanding mortgage loan disbursement by 20 per cent to nearly Rs 2,500 crore in FY20, compared to FY19,” he said. Besides, he said, the bank will grow consumer loans disbursement, which comprises largely of personal, car and two-wheeler and commercial vehicle loans, by 30 per cent to nearly Rs 1,700 crore. To make the home loan disbursal process quick and convenient to customers, ICICI Bank has ramped up its credit processing units from three to 13 centers in cities like Moradabad, Gorakhpur, Jhansi, Prayagraj, Mathura and Saharanpur. ICICI Bank is laying emphasis on cities like Lucknow, Kanpur, Agra, Mathura and Aligarh and expanding its home loan proposition to tier II and III cities that have a robust housing potential like Varanasi, Gorakhpur and Bareilly, he said. The bank has over 260 branches and nearly 1,250 ATMs in the state at present besides 260 self-service kiosks across branches. Bagchi said the bank was giving stress on introducing innovative digital solutions for entrepreneurs and MSME industries. ICICI group imparts free vocational training to underprivileged youth in the state through ICICI Academy for Skills, he said. The Academy has two centers in UP at Lucknow and Gorakhpur and has imparted vocational training to over 3,500 underprivileged youths in the state, he said, adding that by FY’20 it would train nearly 4,600 youth with skills for leading a sustainable livelihood.


Dated: Sep 03, 2019

• What The Road Ahead Looks Like After India’s Radical Banking Transformation:
  Odds that Andrea del Sarto shaped Maidavolu Narasimham’s outlook to banking are rather long, but Robert Browning’s melancholy poem aptly describes the illustrious banker’s financial reforms agenda: ‘Less is More’. Narasimham’s minimalism provides intellectual underpinnings for the latest consolidation drive at state-run banks, a course of action the 13th Governor of the Reserve Bank of India had prescribed when North Block first began unshackling its economy. So, when finance minister Nirmala Sitharaman last Friday announced the merger of 10 banks into 4, she was translating into action a tiered banking blueprint suggested in 1991 by Narasimham, who holds the distinction of being the only RBI cadre official to have headed the regulator. As chair of the 1991 Committee on the Financial System he also led the 1998 Committee of Banking Sector Reforms Narasimham had argued in favour of three-four mega banks at the top of the pyramid, supported by a wider base of last-mile financiers. “I have always said that India needs bigger banks...many PSBs were subpar in size and this merger will help them,” said Arundhati Bhattacharya, former chairman, State Bank of India (SBI). “The kind of investments one needs to make in compliance and technology is enormous and...the return on investment is not enough (for smaller banks). The bigger the entity, the stronger you become.” Technology, therefore, has been the central decision-making theme in choosing the banks to be merged. But that’s just the beginning of a complex process. Thrust on better governance, a more liberal approach to the composition of boards, succession planning on a par with private sector peers, and competitive executive compensation would determine whether the reforms provide independence and ensure accountability at these banks first brought under federal control five decades ago. “For each senior-level position, a set of two-three
people will be trained, so that they get expertise in that area and be ready to take that position, if need be,” Sitharaman said last week. “We want to make sure that board committees are strengthened and adequately compensated. Many board members were paid a pittance; so the boards will be given a flexibility to get the best in the field.” Initiatives to strengthen bank boards and professionalize ‘talentship’ come in the 50th year of bank nationalization, and five years after the PJ Nayak panel gave its recommendations on bank governance. “All these banks were thin at the top because they were struggling to get good quality GMs and CGMs, and these mergers will create the bandwidth for better mid management,” said Kuntal Sur, partner at PwC India. “This will, in turn, help in better loan monitoring, overseeing the end-use of funds, and better recovery.” The very vocal former governor, Raghuram Rajan, had also said that India could be staring at a “national calamity” if the enormous national assets with state-run banks start to deteriorate due to loss of talent and capabilities. In its first innings, the Modi administration experimented with several reforms. It brought in former Citibanker PS Jayakumar to head Bank of Baroda to help turn around the sagging bank. Rakesh Sharma, who now leads IDBI Bank, was also hired in 2015 from the private sector to lead big state-run banks. “A bigger bank helps in more independent decision making. SBI is a case in point,” said Saurabh Tripathi, partner, Boston Consulting Group. “Its size and scale allow its management the bandwidth and stature to deal with government ministries with confidence and make faster decisions. The smaller banks still wait for government signaling.” State-run banks, because of their disproportionate 90% share in industry bad loans, have also given dismal returns to North Block. The government has infused more than Rs 3 lakh crore in them since FY15, but the combined market capitalization of PSBs is just Rs 5 lakh crore. “The benefits of the merger could be less bureaucracy and faster decision-making because we will no longer need an okay from three or four lenders for one bad asset resolution,” said Pratip Chaudhuri, former chairman, SBI. “But to say that these banks will improve profitability will be far-fetched because the government’s aim has and will remain social benefits and compliance. Share prices and profits were never part of the government agenda and that will not change.” But that must change for the mergers to yield the desired results. Similarly, the merged banks shouldn’t be ‘clones’ of one another as they individually were. “Even after the merger, if these banks continue to do the same thing, they will generate the same non-performing loans,” said PwC’s Sur. “These banks need to focus on rebuilding strategies; they don’t need to focus on all geographies, they can concentrate only on corporate or SME or trading. So, they have to find a niche somewhere.” Sitharaman has tied management accountability to bank boards, enhancing by implication the board’s status. “The fact that the management of the bank is accountable to the board …is a very strong factor and there is a lot of flexibility provided, like compensation of non-executive directors,” said PS Jayakumar, MD, Bank of Baroda. “So, I think it is a structural reform, an element of which is the way these banks would be run.” In May 2014, a committee headed by PJ Nayak, former chairman and CEO of Axis Bank, laid out a road map for setting PSU banks free from the government’s ownership, and making them board-run. The panel proposed diluting state ownership to 50% of the banks’ paidup capital, revamping their boards, and removing government’s role in appointments.
of bank chiefs recommendations that helped found the Banks Board Bureau. Four years later, North Block seems to have begun walking the talk. “There is a need to get people with human resource, technology and risk experience as part of the bank boards. Empowering boards will go a long way because at the moment, there is two-way control and when there is a unity of control, it will be better managed,” said Bhattacharya. Past mergers have shown that integration is rather messy, with different cultures standing in the way. “The first one or two years in any merger will have its own challenges, something we also found while integrating ING Vysya,” said Dipak Gupta, joint managing director at Kotak Mahindra Bank. “Crucial in the success of any merger are technology, process alignment and people and culture. The alignment of people and culture is the toughest.” Critics also argue that as the merger process takes more than a year and occupies leadership mindspace, the managements may have little bandwidth to chase credit growth. “The amalgamation process takes up to six months and the management bandwidth of the merging banks may get occupied,” said Anil Gupta, vice president, sector head - financial sector ratings, ICRA. “The amalgamation will require harmonization of asset quality and provisioning among the merging banks and may increase credit provisions this year, as was seen in the recent merger of Bank of Baroda.” Of course, investors anticipating a miracle would fall in the ‘overoptimistic’ camp. It has been three years since Mint Road tightened the noose on 11 PSBs and put curbs on their lending processes. Following RBI’s directive to banks on Asset Quality Review in December 2015, 11 banks were put under operational curbs, with varying sets of restrictions. Of these, five have exited the straitjacket, while Dena Bank has been merged with Bank of Baroda. “Given their weak RoAs and interim profitability pressure, we do not expect a significant catch-up unless one sees a sharp improvement in risk practices,” said Mona Khetan, banking analyst, Reliance Securities. Between FY16 and FY19, bad loans rose for all 11 banks with IDBI Bank reporting the maximum rise of 16.49%. Except for Bank of India, all others have made losses in the past three years. “PSBs have lost the edge to private banks in the last several years just like MTNL and BSNL lost out, Air India lost to private airlines, and government insurers lost huge businesses to private companies,” said Varinder Bansal, managing partner, Pantomath Asset Management Company. “It’s not the size that gives you the edge but the culture that you imbibe.” That’s the culture change these mergers are seeking to accomplish making bank managements accountable to professional boards instead of the political leadership. The Modi administration has so far not interfered with “calls from Delhi” to spare large corporate defaulters. Indeed, Sitharaman took at the dig at the UPA regime when she said that this government never indulged in “phone-banking.” That’s a good beginning for statenrun banks that need all the impetus and independence they can muster to help nearly double India’s economy to $5 trillion in five years.
• Bank Mergers Won’t Ease NBFCs’ Credit Woes:

The proposed merger of 10 state-run banks into four entities is unlikely to ease credit flow to non-bank lenders since their post-merger exposure to the sector will continue to remain above their comfort level, experts said. Finance minister Nirmala Sitharaman’s 30 August announcement on the merger and recapitalization of state-controlled banks raised hopes of better credit flow as restrictions on lending imposed by the Reserve Bank of India (RBI) on weak banks are likely to be lifted after their merger with lenders with stronger balance sheets. Five banks United Bank of India, Indian Overseas Bank, Central Bank of India, IDBI Bank and UCO Bank are still operating under the RBI’s prompt corrective action (PCA) framework that is aimed at reining in banks that have breached regulatory thresholds in bad loans and capital adequacy. Since United Bank of India will merge with Punjab National Bank, it is expected to exit the PCA framework. Central Bank of India, IDBI Bank, UCO Bank and Indian Overseas Bank, meanwhile, will be recapitalized, which could help them exit the framework as well. While RBI prescribes exposure limits for a single borrower and a group of connected borrowers, it has left it to banks to decide their aggregate exposure to all NBFCs. “Banks may also consider fixing internal limits for their aggregate exposure to all NBFCs put together,” according to the central bank’s master circular on bank finance to NBFCs, issued in July 2015. The current exposure limit for a single NBFC stands at 20% of a bank’s tier-1 capital. The 10-15% lending limit to the NBFC sector (expressed as a percentage of total loans) is more of an internal decision by banks as part of their risk management strategy, said Anil Gupta, vice president of rating agency ICRA Ltd. That apart, since banks are wary about lending to NBFCs, mergers do not solve the problem of a credit squeeze. “The merger does not erase the problem of lenders’ reluctance to fund non-banks and also does not change their risk perception for the sector. What could likely improve following the mergers is credit appraisal, monitoring and stress resolution of loans to all sectors, including the NBFCs,” said Gupta. Except Punjab National Bank, all other anchor banks designated by the government to lead bank consolidation had exposures of more than 10% of their total loan book to non-banks as of 30 June, according to an analysis by Credit Suisse. Union Bank of India has the highest exposure at 14.1%, followed by Canara Bank and Indian Bank at 12.3% and 10.7%, respectively. Following the merger, even PNB will reach the 10% mark, while Union Bank of India and Canara Bank will be at 13.3% each. Indian Bank’s exposure will be at 11.8%. “The merger is also unlikely to meaningfully revive flow of credit to the liquidity-pressed NBFCs as given the already high share of NBFC exposure in constituent banks, all four merged entities will have more than 10% of their loan exposure towards NBFCs,” said a note by Ashish Gupta, managing director and head of equity research (India), Credit Suisse. As of July, bank loans to NBFCs stood at ₹6.36 trillion, while the total bank credit stood at Rs. 84.95 trillion, according to RBI data. Analysts also note a lack of synergies in this round of mergers compared to the last one, when Dena Bank and Vijaya Bank were merged with Bank of Baroda. “Given the limited flexibility on restructuring and rationalisation, meaningful cost synergies
from PSU bank mergers are unlikely. Even as the size and scale of operations increase, core profitability for these banks is likely to remain weak. Hence, they will continue to depend on external infusions,” said Gupta. Unlike the previous mergers of state-run banks where the anchor banks had a strong capital profile and better asset quality with large scope for branch rationalization, many anchor banks under the recent amalgamation process are themselves not in good health, with both gross bad loans and net bad loans for PNB and Union Bank of India at over 15% and 7% of assets, respectively, according to a report by Reliance Securities.

Source: https://www.livemint.com/industry/banking/bank-mergers-won-t-ease-nbfc-credit-woes-1567531599250.html
Dated: Sep 04, 2019

• **Merger Won’t Slow Down Business, Syndicate Bank:**

HR integration will be the top priority in the merger of Syndicate Bank with Canara Bank and branch rationalisation would be looked at only after all aspects of integration are complete. Speaking to TOI, Syndicate Bank’s MD & CEO Mrutyunjay Mahapatra said that the merger process will not slow down business. Syndicate Bank will go to the board between September 9-15 for approval. “It will not impact lending because we have adequate capital and once deals come, we will keep doing them under risk-management framework,” he said. Syndicate Bank has three-percentage-point higher capital compared to the minimum requirement and therefore will not be impacted by government’s decision to infuse capital into acquiring the bank. “As of now, there is no change in growth strategy. The problem is not of approving loans but of demand,” he said. Mahapatra, who was joint MD at SBI before joining Syndicate Bank, was part of the integration team during merger of SBI’s associate banks. He headed the IT department, which took centre stage at the time of the merger. In addition to this experience from SBI, the banks will get feedback from Bank of Baroda-Dena-Vijaya integration. After balance sheets of the two banks are merged following approvals, the teams will work on HR processes and IT. Earlier, Canara Bank MD & CEO R A Sankara Narayanan, told ET Now that there would not be any loss of employment after merger. He had also confirmed that both the banks will stick to business projections. and have a dedicated team to focus on integration without affecting normal business. One important aspect of the merger will be mapping products. First, the two banks will map products into three categories: unique, same and similar products. Some like savings and fixed deposits are identical. Products like home loans are similar but may have minor differences. “All these products have to be mapped and the integration committee has to take a call. The pygmy deposit is something unique to Syndicate bank. There may be some other relating to SME which are unique,” said Mahapatra.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/merger-wont-slow-down-business-syndicate-bank/articleshow/70971677.cms
Dated: Sep 04, 2019

• **UCO Bank as regional bank causes heartbreak in United Bank of India:**

The choice of Uco Bank as the regional bank for the east has raised many eyebrows as the United Bank of India (UBI), which is set to be merged with Punjab National Bank and Oriental Bank of Commerce, has played a more significant role in banking expansion
in the east, especially in the north eastern states. “It has come as a surprise, we don't really know how to deal with,” said a senior executive at United Bank of India. UBI, popularly known as the Tea Bank for being the largest financiers to the tea gardens of Darjeeling and Assam, has 1541 branches in the eastern and north-eastern markets, with Uco's 1149. UBI is also the lead bank in 43 districts in West Bengal, Assam, Manipur and Tripura; and convener of the State Level Bankers’ Committees in West Bengal and Tripura. “As far as UBI is concerned, we have a unique proposition. No other bank can match our huge presence in Bengal and other eastern states. Retaining UBI's regional strength may make sense, we should not waste this opportunity,” UBI chief executive Ashok Kumar Pradhan had told ET in an interview on October 17 last year. Uco Bank is, however, a bigger bank with 3088 branches and Rs 3.11 lakh crore business mix compared with UBI's 2055 branches and Rs 2.06 lakh crore business. Allahabad Bank, the biggest of the Kolkata-headquartered lenders with Rs 3.78 lakh crore business, has just about 35% of its 3229 branches in east and northeast, compared to Uco's 38% and UBI's 75%. The government has selected the merger candidates on the basis technological synergy rather than geographical compatibilities. PNB, OBC and UBI are in the same core banking solution platform Finacle. Interestingly, Uco Bank, too uses the same banking software built by Infosys. UBI, which has reported net profit for the past two quarters and has 51% CASA (current and savings bank account ratio to total deposits), may have been preferred for merger for its better financials than Uco Bank, a senior banker said, requesting anonymity. UBI has managed to reduce gross non-performing assets ratio to 15.89% while its net NPA was 8.19% at the end of June. Uco, which is still making losses, has very high NPA ratios with one-fourth of its loan assets being sticky. Its net NPA was at 8.98% at the end of June. “Declaring Uco as a regional bank will not solve its fundamental issues. The bank is suffering from asset quality problem which has eaten up a large chunk of capital,” said Sanjeev Jain, an analyst with Ashika Stock Broking. “Need of the hour for Uco Bank is to control its NPA level along with fresh capital mobilization for growth. Investors should wait till the sign of bank's growth visibility for fresh investment on the counter,” he said.

Dated: Sep 04, 2019

- Canara Bank Board To Meet Next Week To Consider Rs 9,000-Cr Capital Infusion:

Public sector lender Canara Bank on Wednesday said its board will meet next week to consider capital infusion of up to Rs 9,000 crore through issuance of preferential equity shares to the government of India. The board will also consider amalgamation of Syndicate Bank with it. “…Meeting of board of directors of the bank is scheduled to be held on September 13, 2019, to consider the amalgamation of Syndicate Bank into Canara Bank and to consider capital infusion up to Rs 9,000 crore by government of India by way of preferential issue of equity shares subject to necessary approvals,” Canara Bank said in a regulatory filing. Last week, the government unveiled a mega plan to merge 10 Public Sector Banks into four with a view to creating fewer and stronger global-sized lenders with robust balance sheets that can be used to boost credit and spur growth. As per the announcement, Syndicate Bank will merge with Canara Bank, while Andhra
Bank and Corporation Bank would subsume into Union Bank of India, and Allahabad Bank will be amalgamated with Indian Bank. Oriental Bank of Commerce and United Bank will merge with Punjab National Bank to create the nation's second-largest lender behind State Bank of India.


Dated: Sep 04, 2019

- **RBI Makes It Mandatory For Banks To Link Lending Rate To External Benchmark:**
  The Reserve Bank of India has made it mandatory for banks to link their retail and MSME loans to external interest rate benchmarks in its biggest push to make its interest rate decisions effective and suggested a bunch of rates that lenders could choose from. Home, car and personal loans for travel are expected to fall benefiting borrowers. This new norm will be effective October 1 where banks have to migrate from the Marginal Cost of Lending Rate regime to external benchmarking and banks will have the freedom to choose which one to follow. It has come up with rules that would also prohibit banks from gaming the system although it has left the risk premium charges to be decided by the bank depending on the credit profile of the borrower. The interest rate under external benchmark shall be reset at least once in three months. “In order to ensure transparency, standardisation, and ease of understanding of loan products by borrowers, a bank must adopt uniform external benchmark within a loan category; in other words, the adoption of multiple benchmarks by the same bank is not allowed within a loan category,” RBI said. The Reserve Bank of India has been struggling for more than a decade on how to make its interest rate decisions get transmitted to the ultimate borrowers. It had experimented with many ideas such as Prime Lending Rate, Base Rate and the last one was the MCLR which was based on the cost structure of the bank in the latest quarter. Banks can link their interest rates to the RBI's benchmark repo rate, the three month or six month treasury yield published by Financial Benchmarks India Pvt Ltd (FIBIL) or any other benchmark published by FIBIL, RBI said. This would be the second attempt by the regulator to make bank loans linked to an external benchmark. While it was supposed to turn operational last April, Governor Shaktikanta Das decided to postpone it as the industry highlighted operational difficulties. But with the noise getting louder about high borrowing costs, even the Finance Minister Nirmala Sitharaman chipped in asking state-run banks to link their rates to benchmarks. Many including the State Bank of India and Bank of India have done so. In an industry conference last month governor Shaktikanta Das said that the transmission of policy rates at just 29 basis points (bps) this year compared to a combined repo rate cut of 75 bps (excluding the 35bps cut in August) did not meet RBI's expectations. While the rates move along the lines of the benchmark, banks would have the freedom to charge a premium based on the customer's risk profile. A poor credit score could lead to a high premium over the benchmark and vice versa and it can’t be changed at the will of the bank. “Credit risk premium may undergo change only when borrower's credit assessment undergoes a substantial change, as agreed upon in the loan contract,” said RBI. “Further, other components of spread including operating cost could be altered once in three years.” “This makes it mandatory for banks to link rates which we have mostly done. Only thing is we cannot have two products which we offer
now in terms of a market linked home loan product and one that is not. It could increase volatility given that rates short term rates will be linked. Also the liability side has not been linked which is still a question in front of us,” said PK Gupta, managing director, SBI.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-makes-it-mandatory-for-banks-to-link-lending-rate-to-external-benchmark/articleshow/70982119.cms

Dated: Sep 04, 2019

• Carlyle Group, General Atlantic Singapore To Pump In More Money In PNB Housing Finance:

The Carlyle Group and General Atlantic Singapore Fund FII Pte Ltd are set to raise their investments in PNB Housing Finance, a move that may come as a major confidence booster for the non-banking financial sector that is undergoing a credit squeeze. These marquee global investors are likely to subscribe to the Rs 2,000-crore worth of fresh issue of equity shares by PNB Housing, sources close to the development said. Varde Holdings Pte Ltd is also likely to raise its investment. Two other local investors are also in the process of subscribing to the fresh equity. The share sale is the first by the mortgage lender promoted by Punjab National Bank since its listing in 2016, as it needs fresh equity to support growth. The lender had outstanding loan assets of Rs 76,000 crore at the end of June. Carlyle holds 32.25% in PNB Housing through a group company, called Quality Investment Holdings. General Atlantic holds 9.87% while Varde Holdings holds 1.6% in the mortgage lender. Their shareholding may go up if they invest more than their proportionate shareholding. The Rs 2,000-crore issue will be inclusive of premium and the final price will be finalised just ahead of the issue opening according to market rules. PNB Housing executives declined comment on the development. Executives at Carlyle Group, General Atlantic and Varde Holdings did not comment either. Shares of the mortgage lender with a face value of Rs 10 closed Wednesday at 638.40 on BSE. PNB Housing has hired JM Financial and Kotak Mahindra Capital Co as merchant bankers for the issue. ET was first to report on May 6 about PNB Housing’s equity raising plan. “The company is progressing well on its plan. The exercise is likely to be completed by mid-October,” a source in the know said. It is learnt that the mortgage lender will opt for ‘limited preference’ route whereby a maximum of five investors can participate. Investors’ interests in the share sale would vindicate the prospect of the Indian mortgage market on the back of growing urbanization and the rise in rural housing demand. Mortgage to GDP ratio in India was just about 10% compared with China’s 18% and the US’ 63%. The government has lowered GST rate on under-construction property to 5% from 12% to promote housing for all.


Dated: Sep 04, 2019

• NBFC Credit Falls To Rs 1.79 Lakh Crore At The End Of June Versus Rs 2.49 Lakh Crore Of March:

Credit disbursals by non-banking finance companies (NBFCs) continued to slide despite regulatory measures to boost credit to the sector. Loan sanctions plunged 28% in the quarter to June, almost a year after the liquidity squeeze that followed the unexpected default by Infrastructure Leasing & Financial Services (IL&FS). Total NBFC sanctions fell to Rs 1.79 lakh crore at
the end of June versus Rs 2.49 lakh crore at the end of March, data compiled by credit bureau CRIF High Mark showed. On a year-on-year comparison the fall in sanctions was steeper at 30%. Non-bank lenders had sanctioned loans worth Rs 2.57 lakh crore in June last year, which rose to Rs 2.76 lakh crore at the end of the September, the same month infrastructure financier IL&FS collapsed. It slid to Rs 2.2 lakh crore at the end of December a drop of nearly 20% from the September levels. “The decline this quarter is more significant because the data sets, combined with the not so positive economic indicators, paint a worrying picture,” said Parijat Garg, Senior Vice President, CRIF. “The hope is pinned on the festive season to bring some relief to the sector because the first quarter is a slow credit period. Also, several measures were announced by the government and the RBI in the July-August period which may have some positive impact as well in the coming quarters.” The data till June showed that housing, property and auto loan segments were the worst hit. Housing loan sanctions declined by 30% to Rs 45,000 crore against Rs 64,000 crore in March while loans to developers declined by nearly 40% to Rs 13,730 crore versus Rs 23,000 crore QoQ. Auto and two-wheeler loans declined by 17% to Rs 26,000 crore in the quarter to June, data shared by CRIF showed. Without announcing any bailout or liquidity window for the struggling non-bank lenders, the government and the Reserve Bank of India have announced several measures to arrest the collapse of the non-bank lending space that contributes over 20% of the total credit. In October last year the RBI has increased single borrower limit of banks to NBFCs to 15%, till December 31st. It had also permitted banks to use G-Secs equal to their incremental outstanding to non-banks to meet their liquidity coverage ratio requirements. Banks had also stepped up their buyout portfolio and the National Housing Bank refinancing limit was also increased by Rs 6000 crore. The central bank had also allowed non-banks with loans of over five year maturities to sell their loan pools or securitise them on easier terms for the next six months, last year. But, the bulk of the announcements have come post the July 5 budget when the government announced a one-time six month partial guarantee scheme of Rs 1 lakh crore. Following which the RBI also announced liquidity easing measures and relaxed exposure norms to banks giving credit to NBFCs. In August the RBI classified loans by banks to NBFCs for on-lending to agriculture, MSME and housing up to a certain extent as priority sector. On August 23, finance minister Nirmala Sitharaman announced increase in NHB increasing by Rs 10,000 crore and monitoring of the credit guarantee scheme at the highest level. But despite these measures, industry participants claim that banks continue to be risk averse. “NBFCs continued to feel the liquidity crunch during Q1 of the current fiscal, primarily due to banks getting risk averse when it came to lending to NBFCs,” said Raman Agarwal, Chairman, FIDC - an industry body for non-bank lenders. “Some remedial measures have been announced, starting with the budget announcement of the Partial Credit guarantee scheme. The key point is that all the measures to infuse liquidity are routed through banks and as long as banks are risk averse, the desired impact is not seen.” India’s growth slumped to a six-year low of 5% in the June quarter. Monthly automobile sales have collapsed, in some cases as much as 50%, plunging dealerships into losses and triggering job cuts. The government has announced stimulus measures and reforms including a merger of state-run banks aimed at strengthening them and bolstering credit
expansion in order to revive growth. What has aggravated the liquidity squeeze of non-bank lenders is the repayment concerns about Dewan Housing Finance Corp Ltd (DHFL) and the Essel Group, pushing funding costs at NBFCs at least 70 bps higher than September last year. A basis point is 0.01 percentage point. Mutual funds, a key lender to them after being flooded with cash from investors, have frozen lending due to redemption pressures.


Dated: Sep 04, 2019

• **Home, Auto Loans To Get Cheaper From 1 October:**

The Reserve Bank of India on Wednesday directed banks to link interest rates on loans to retail and small business borrowers to an external benchmark beginning 1 October to aid effective downward transmission of the central bank's policy rate cuts. However, banks can link loans to other segments of borrowers as well, RBI said. For borrowers, this will mean faster transmission during both rise and fall of interest rates. Lowering the cost of funds for consumers and businesses is crucial for supporting economic growth since GDP expansion has slowed to the slowest pace in six years at 5% in the June quarter. Consumers and small businesses may expect their interest rate costs to fall in cases where banks haven’t already fully passed on RBI's policy rate cuts. Banks have been under pressure to improve monetary policy transmission. Governor Shaktikanta Das said on 19 August that the transmission of policy rates at just 29 basis points (bps) this year compared to a combined repo rate cut of 75bps (excluding the 35bps cut in August) did not meet RBI's expectations. To be sure, some banks have already begun linking their lending rates to an external benchmark. Among them are state-run State Bank of India, Union Bank of India, Central Bank of India, Punjab National Bank, Indian Bank and private sector lender Federal Bank. Since April 2016, banks have been pricing all new loans using the marginal cost of funds-based lending rate (MCLR). The central bank said in a statement on Wednesday that the transmission of policy rate changes to the lending rate of banks under the current MCLR framework has not been satisfactory. Banks have been allowed to choose between the repo rate, the government's three-month and six-month treasury bill yield published by the Financial Benchmarks India Pvt. Ltd (FBIL), or any other benchmark market interest rate published by FBIL. However, a bank will have to adopt a uniform external benchmark within a category, meaning that the adoption of multiple benchmarks is not allowed within a category. While lenders can decide on the spread they charge over the benchmark to calculate the final interest rate, RBI said the spread can be changed only if the credit assessment of the borrower undergoes a substantial change. The interest rate under external benchmark will have to be reset at least once in three months, RBI said. According to RBI's circular, borrowers under the MCLR or base rate regime who are eligible to prepay their loans without pre-payment charges shall be eligible for a switchover to external benchmark without any charges, except reasonable administrative or legal costs. Others who do not have the prepayment facility can move to external benchmark on terms acceptable to the bank and the borrower. In December, RBI said that banks must set their interest rates for new loans against an external benchmark beginning
1 April. The rule was supposed to apply to all new retail loans and small business loans with floating rates from that date. The proposal, however, was opposed by bankers who wrote to the regulator citing their concerns. In April, Das postponed the linking to external benchmarks and said RBI would discuss the proposal with the parties concerned before taking a decision on implementing it. 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, base rate, and then MCLR. Last year, though, was the first time that banks were asked to price their loans against an external benchmark. While the regulator has been pushing for adoption of an external benchmark, banks argue that linking of lending rates without linking of the deposit rates will hurt them. Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI, said in a 20 August report that for external benchmarking, it is not possible for banks to only link the asset side of the balance sheet to an external benchmark without creating significant asset-liability mismatches. Ghosh said close to 35% of bank liabilities are in the form of savings bank deposits and carry fixed interest rates. “Further, the banks are also not able to link external benchmark to the entire liabilities (especially time deposits), as the floating term deposits are not accepted by the Indian depositors and have already been unsuccessfully experimented by some peer banks in India,” he added.

Dated: Sep 04, 2019

• **Link Loans To Benchmarks, RBI To Banks:**

The Reserve Bank of India (RBI) has made it mandatory for banks to link loans to retail customers and Micro, Small and Medium Enterprises (MSMEs) to external interest rate benchmarks in a big push to make transmission of monetary policy more effective. Home and car loan rates, along with those for personal travel, are expected to fall, benefiting borrowers. The RBI also suggested a series of rates that lenders can choose from as the peg. The RBI has already cut the policy rate by 110 basis points this year to revive flagging growth, which sank to the slowest in six years in the June quarter. A basis point is one-hundredth of a percentage point. FM Nirmala Sitharaman had called on banks to improve rate transmission last month to help drive credit expansion, investment and consumer demand. When the new framework goes into effect on October 1, banks will have to migrate from the Marginal Cost of Lending Rate (MCLR) regime. The RBI has left risk premium charges to be decided by the lenders, depending on the borrower's credit profile. However, the central bank has also drawn up rules to prevent banks from gaming the system by tweaking risk premiums unless there's a material change in the status of the borrower. The interest rate under the external benchmark shall be reset at least once in three months. “In order to ensure transparency, standardization and ease of understanding of loan products
by borrowers, a bank must adopt uniform external benchmark within a loan category,” the RBI said in a release. The central bank has been struggling for more than a decade to improve the transmission of rate changes to ultimate borrowers. It tried prime lending rates and base rates before zeroing in on the MCLR, which is based on the cost structure of the bank in the latest quarter. The new pegs include the RBI’s repo rate, the three-month or six month treasury yield published by Financial Benchmarks India Ltd (FBIL) or any other benchmark published by the latter, the RBI said. While the plan was supposed to be implemented in April, Governor Shaktikanta Das decided to postpone the move as the industry highlighted operational difficulties. There has been increasing clamour for linking to benchmarks because of high borrowing costs. Many, including SBI and Bank of India, have already done so. “This makes it mandatory for banks to link rates, which we have mostly done,” said SBI managing director PK Gupta. “Only thing is, we cannot have two products which we offer now, in terms of a market-linked home loan product and one that is not. It could increase volatility, given that short-term rates will be linked. Also, the liability side has not been linked, which is still a question in front of us.” At a banking conference last month, Das said the transmission of policy rates at just 29 basis points (bps) this year, compared with a combined repo rate cut of 75 bps (excluding the 35bps cut in August), did not meet RBI’s expectations. While rates were roughly congruent with the movement of the repo rate, banks had the freedom to charge a premium based on the customer’s risk profile. A poor credit score could lead to a high premium over the benchmark and vice versa, which couldn’t be altered at will. “Credit risk premium may undergo change only when borrower’s credit assessment undergoes a substantial change, as agreed upon in the loan contract,” said the RBI. “Further, other components of spread including operating cost could be altered once in three years.” The government has announced various stimulus measures and relaxations to revive growth. The RBI will also transfer a record surplus to the government, giving it some room on the fiscal front. FBIL is jointly owned by the Fixed Income Money Market and Derivatives Association of India (FIMMDA), Foreign Exchange Dealers’ Association of India (FEDAI) and the Indian Banks’ Association (IBA). It was formed in December 2014. “Its aim is to develop and administer benchmarks relating to money market, government securities and foreign exchange in India,” according to the FBIL website. “It is responsible for all the aspects relating to the benchmarks to be issued by it, namely, collection and submission of market data and information including polled data, formulation, adoption and periodic review of benchmark calculation methodologies, calculation, publication and administration.
of benchmarks confirming to the highest standards of integrity, transparency and precision.”

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/link-loans-to-benchmarks-rbi-to-banks/articleshow/70986204.cms
Dated: Sep 05, 2019

• **PNB Board Approves Amalgamation With OBC, United Bank:**

The board of Punjab National Bank (PNB) has given in-principle approval for amalgamation of Oriental Bank of Commerce and United Bank of India with PNB. The board meeting held on Thursday followed the finance ministry asking the three banks to consider the proposal of amalgamation, PNB said in a regulatory filing. The Alternative Mechanism headed by the finance minister after consultation with Reserve Bank of India has given the go-ahead for the amalgamation. 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. Besides, the PNB board cleared a capital infusion of up to Rs 18,000 crore by the government for preferential allotment of equity shares of the bank at a price determined in terms of SEBI regulations. The government on Friday announced infusion of Rs 16,000 crore in PNB for a smooth and seamless amalgamation. The Extra General Meeting (EGM) in this regard will be held on October 22 for obtaining approval of shareholders, it said.

Dated: Sep 05, 2019

• **Banks Start In-Principle Approval Of Retail Loans In 59 Mins:**

The platform will soon launch in-principle approval for auto loans. Online loan platform PSB Loans in 59 Minutes has launched in-principle retail loan approval for home and personal loan customers. The platform is currently offering loan approvals to MSME sector. “We are extending home and personal loan for loan aspirants through ‘59 minutes portal’. We are glad that the benefits of this platform which was made available to MSMEs will be available to everyone,” State Bank of India’s Managing Director PK Gupta said in a release. The platform will soon launch in-principle approval for auto loans. The applicants will get an in-principle approval for loans within 59 minutes through 19 public sector banks including names like SBI, Punjab National Bank, Bank of Baroda and Union Bank of India. PSB Loans in 59 Minutes functions through advanced algorithms to analyze data points from several sources such as income tax returns and bank statements, among others. Once an applicant uploads the required information, the proprietary algorithms on the website appraise the application, determine the loan amount that can be sanctioned and then connect the applicant to the bank’s branch all in under 59 minutes.

Dated: Sep 15, 2019

• **Banks Start In-Principle Approval Of Retail Loans In 59 Mins:**

Online loan platform PSB Loans in 59 Minutes has launched in-principle retail loan approval for home and personal loan customers. The platform is currently offering loan approvals to MSME sector. “We
are extending home and personal loan for loan aspirants through ‘59 minutes portal’. We are glad that the benefits of this platform which was made available to MSMEs will be available to everyone,” State Bank of India’s Managing Director PK Gupta said in a release. The platform will soon launch in-principle approval for auto loans. The applicants will get an in-principle approval for loans within 59 minutes through 19 public sector banks including names like SBI, Punjab National Bank, Bank of Baroda and Union Bank of India. PSB Loans in 59 Minutes functions through advanced algorithms to analyze data points from several sources such as income tax returns and bank statements, among others. Once an applicant uploads the required information, the proprietary algorithms on the website appraise the application, determine the loan amount that can be sanctioned and then connect the applicant to the bank’s branch all in under 59 minutes.


Dated: Sep 05, 2019

- **External Benchmarks May Not Bring Down Loan Rates:**

Bank deposits in India compete with government savings schemes such as public provident fund and national savings schemes, which offer higher rates and hence create a floor for cuts in deposit rates. Home, auto and personal loan rates may not fall sharply as expected after the RBI’s directive on Wednesday as bad debt-laden banks strive to protect profitability with higher spreads over benchmark rates. Banking experts and analysts cautioned about pressure on banks’ net interest margin after the RBI ordered lenders to ditch the current formula for setting rates and adopt a new one based on market-linked benchmarks. Some bankers and analysts warned that rates may either rise in the short term or stay where they are, as banks’ cost of funds is linked to deposit rates that are sticky and not benchmarked. Banks may begin to charge a higher risk premium to cover the cost of deposits, which do not move in tandem with any of the RBI-suggested external benchmark interest rates such as repo rate or treasury bills. If banks don’t raise rates, they may be compromising on profitability. “Linking all new retail loans (to external benchmarks) could lead to wide fluctuations in EMIs (Equated Monthly Installments) for customers because these rates have to be reset every three months. The certainty that retail borrowers look for in EMIs will go. Also, with deposit rates not linked to the market, the transmission will not be total,” said Prashant Kumar, CFO at State Bank of India. The country’s largest lender has already linked cash credit overdraft rate up to Rs 1 lakh and home loan rates to the repo. On Wednesday, the RBI asked banks to peg loans to retail lenders and Micro, Small and Medium Enterprises (MSMEs) either to the central bank’s repo rate, the three month or six-month treasury yield published by Financial Benchmarks India Ltd (FBIL) or any other benchmark published by the latter. The move is aimed at making banks transmit the RBI’s interest rate actions. It has been observed that whenever the RBI raises rates, banks are quick to pass on the increase to borrowers. The reverse, however, doesn’t happen as promptly. The repo rate stands at 5.4%. If a bank with a marginal cost of lending rate of 9% charges a customer 100 basis points above it or 10% interest rate on a home loan, it will now be tempted to widen the spread because the
new external benchmark rate would mostly be lower than the MCLR. In the current scenario, the spread between repo and the actual rate is 460 basis points. A basis point is one-hundredth of a percentage point. Taking the same illustration forward, if the RBI cuts rates by, say, 40 basis points to 5% percent, the MCLR or the bank’s cost based on deposit and other rates does not fall by an equal amount to 8.6%. The fall may be just 20 bps or 10 bps, depending on the strength of the bank’s deposits franchise. Hence, to protect margins, the bank would have to create a buffer and widen the spread to maybe 480 bps or even 500 bps. Eventually, instead of giving out the home loan at 10%, the bank may offer it at 10.2% or 10.3%. “The RBI’s move could have serious implications on bank margins because their liabilities are fixed and loans to retail borrowers and MSMEs constitute more than 50% of the loan book in some cases,” said Prakash Agarwal, head (financial institutions) at India Ratings & Research. “Banks will have to keep a buffer to adjust lending rates because deposit rates will not come down at the same pace as lending rates.” Banks could also raise administrative fees to compensate for the additional risk. And this could also make payments volatile for individuals. Since May, SBI has linked its savings bank rate for deposits above Rs 1 lakh to the repo rate. However, it did not change the rate despite the 35 bps cut by the RBI earlier this month. SBI’s savings bank rate is currently at 3%, higher than the 2.65% it should have offered taking into account the cut by RBI. Bank deposits in India compete with government savings schemes such as public provident fund and national savings schemes, which offer higher rates and hence create a floor for cuts in deposit rates. A large number of households and senior citizens depend on bank rates for survival. Hence, any rate cut also has social implications. “What happens if a bank links the rates to, say, three-month or six month treasury bill and there is sudden liquidity crisis, which leads to rates shooting up? Does that mean a mortgage borrower will overnight have to pay 200 basis points more as interest?” said Suresh Ganapathy, an analyst at Macquarie Securities. “The bigger issue is that of banks’ ALM (asset-liability management) over the longer term in the absence of floating rate liability market. Please note that SBI did launch floating-rate, fixed-tenure term deposits in the past only to fail miserably... No one in India will accept a floating rate on deposits, since what they need is income certainty,” Ganapathy added. Kotak Institutional Equities said the change would cast a shadow on bank margins as MCLR rates are currently higher than repo-linked instruments. It will also slow down transmission till all rates are aligned, and could lead to tweaks in bank spread or credit risk adjustment. “Many banks are seen to be reluctant to link loan rates to external benchmarks because of the severe constraints they face in lowering deposit rates fearing migration of deposits to small savings schemes,” said Ajay Bodke, CEO (PMS) at Prabhudas Lilladher.


Dated: Sep 06, 2019
Oriental Bank Reveals Loan Exposure To Shri Nirav Modi, Choksi:

For the first time, the public sector Oriental Bank of Commerce (OBC) has come clean on its loan exposure to the absconding diamantaires Nirav Modi and his uncle Mehul C. Choksi, here on Friday. The development comes ahead of the OBC’s upcoming merger with the Punjab National Bank (PNB) which - in February 2018 - had admitted to a massive fraud perpetrated by Nirav Modi and Choksi running into over Rs 13,500 crore, sending the entire banking industry in a spin. The OBC has now issued notices declaring the duo and their companies as ‘Willful Defaulters’ for varying loan amounts, totaling to around Rs 289 crore, at their Large Corporate Branch, Cuffe Parade, Mumbai. Nirav Modi’s companies Firestar International Pvt. Ltd. and Fire Star Diamond International Pvt. Ltd. failed to repay the OBC’s loans of Rs 60.41 crore and Rs 32.25 crore, respectively. Similarly, Choksi’s companies Gitanjali Gems Ltd. and Nakashattra World Ltd. have defaulted on OBC’s loans worth a total of Rs 136.45 crore and Rs 59.53 crore, respectively.

Days after the scam erupted in February 2018 and it dawned that Nirav Modi and Choksi, along with other accused family members, had sneaked out of the country, the OBC promptly declared their accounts as ‘NPAs’ on March 21, 2018. Furthermore, the OBC has warned the masses to desist from entering any kind of deals with the (aforementioned) and appealed to the people to provide information of assets of Nirav Modi-Choksi or their transactions to enable the bank recover the ‘public money’ due from them. Banking circles question why it took the OBC a long period nearly 18 months to cough out is exposure in the matter, and just before its proposed merger with the PNB, along with United Bank of India, announced last month by Finance Minister Nirmala Sitharaman. “Besides OBC, other banks also have exposure to Modi and Choksi, and their group companies. What prevents them all from coming together and take necessary legal action to recover their dues,” banking expert and Maharashtra Trade Unions Joint Action Committee (TUJAC) Convenor Vishwas Utagi told IANS. Utagi said the other bigger questions are: what action has been taken against the departments and officers dealing in foreign exchange in Reserve Bank of India and other affected banks, how much of the outstandings from (Nirav Modi-Choksi and others) accused have been recovered so far and whether the details emerging now are under pressure’ before the upcoming mergers. Incidentally, in March this year, the OBC had got a life-saving dosage of Rs 1,186 crore capital infusion and more is expected after the mergers are completed. Earlier this year, the State Bank of India (SBI) had first bared its chest on a Rs 405 crore outstanding loan from Choksi and his family members. The SBI’s disclosure came barely two days after it became public that Choksi had surrendered his Indian citizenship in favour of the nationality of Antigua & Barbuda Islands, in West Indies. In March this year, a relaxed and well-dressed Nirav Modi was seen sauntering down a street in London, sparking off a furore in India after which he was arrested by the UK authorities. Currently, India is making all-out efforts for getting both the uncle-nephew extradited to India and face the laws here.

Dated: Sep 06, 2019
**Insolvency Professional Complains To SBI About Selection Criteria For RPs:**

An insolvency professional has complained to State Bank of India (SBI) about the selection criteria it is using to appoint resolution professionals (RPs) for companies undergoing bankruptcy. The insolvency professional, Shyam Sundar Kasera, voiced the grievances in response to an email from SBI executive Hemant Pathak seeking expressions of interest for a new assignment from nearly 250 registered RPs on 31 August. ET has reviewed the contents of the email. In an emailed response on 2 September, Kasera has complained that the grading system rewards those RPs who have no active assignments in hand with the highest scores. Kasera has also argued that the selection process unduly rewards RPs whose assignments resulted in resolution of stressed companies but fails to consider that in many cases where a company goes into liquidation, the banks have decided to take it into liquidation. RPs are practitioners who are registered with the Insolvency and Bankruptcy Board of India (IBBI) and are certified to administer companies undergoing bankruptcy proceedings. Kasera confirmed that he had written to SBI when contacted. “Many of these criteria are counter-intuitive because while one is demanding that an RP be experienced to receive the highest marks, on the other hand you are taking away marks if the person is actively handling an assignment”, Kasera told ET. SBI was yet to respond to emailed queries. Kasera also complained that RPs were being rewarded for a higher number of ‘completed assignments’ but the interpretation of completed assignments only considers those companies where resolution plans have been approved or liquidation has been completed but fails to consider companies were liquidation has been ordered and is ongoing. RPs handling large bankruptcy cases such as Reliance Communications, Bhushan Power and Steel, Amtek Auto, Jaypee Infratech and Videocon were also copied on the emailed correspondence.

Dated: Sep 06, 2019

**Merging State Banks Won’t Solve Governance Issue, Former RBI Governor Shri YV Reddy:**

Former Reserve Bank of India Governor YV Reddy on Friday said that merging state-run banks will not solve the issue of governance and consolidation should be based on synergies with boards driving the initiative. Reddy also said that global experience has so far shown that half of bank mergers have been ineffective. “I won’t call it a reform, it’s a commercial decision based on synergy, global experience in the banking system shows that only half of the bank mergers have been successful,” Reddy said while speaking at the 6th SBI Banking & Economic conclave. “If the purpose is governance, it will not be solved by merging two banks. However, if it’s for economies of scale namely operational efficiency it could happen. Mergers could be done by the respective boards as well by analyzing synergies, it need not necessarily be through government.” The government recently merged 10 state-run banks overnight into 4, along with the much-awaited governance reforms that include making PSB managements accountable to respective boards, strengthening the executive succession process and giving longer tenures to top-level directors so that
structural changes yield the desired results. The finance ministry’s decision comes close to the 50th anniversary of nationalization of banks and marks 5 years of the PJ Nayak committee set-up to review governance in PSU banks. Commenting on the collapse of the infrastructure financier IL&FS, Reddy said that the whole episode reflects the failure of risk-assessment capabilities of stakeholders. “In my view the IL&FS problem reflects the risk-assessment capabilities of large institutions that had exposure to that,” Reddy said. “SBI, LIC should examine this point how did they miss it? It is not a system wide liquidity problem if you ask me it may be a contagion. In a way if the government had to virtually take over IL&FS and run its affairs, it is an indication that the government has recognized it as some sort of a solvency problem.” What IL&FS leaves in the wake of its destruction is weaker banks, mutual funds, pension funds and an economy which has slowed to a six-year low. With most debating if India is undergoing only a cyclical or a more-worrisome structural downturn. “There is a consensus that current slowdown is a combination of structural and cyclical factors,” Reddy said. “The latest RBI annual report aptly describes the situation that there are large number of uncertainties globally and domestically and they we are in a soft patch. It is said that beauty lies in the eyes of the beholder, the beauty of the Indian economy is also in the eyes of the beholder, it depends who is looking at it half the time.”Reddy also said that the world is facing enormous uncertainties and it may have geo-political repercussions as well. India could affect the outcomes if it teams-up with some other tier-2 nations. He also painted a grim picture of the on-going trade wars and said that he sees protectionist policies on the rise. “Tension between globalization and nationalization will intensify rather than reduce in the near future,” Reddy said. “The US-China trade war is only the tip of the iceberg there are more fundamental issues at stake. Now, the global currency is the US dollar, China is trying to contest that. In the real sector China is progressing in the financial sector US is dominating, so there is a disconnect.”

Dated: Sep 06, 2019

• **RBI Declines Equitas’ Request To Extend Listing Deadline For Small Finance Bank:**

The Reserve Bank of India (RBI) has turned down a proposal by Equitas Holdings seeking extension of the listing deadline for its subsidiary Equitas Small Finance Bank (ESFB) and ordered freezing of the small finance bank’s chief executive’s remuneration at the existing level. According to a regulatory filing that cited an RBI communication to the small finance bank on Friday, the central bank told Equitas that its “request for extension of timeline for listing of share of ESFB cannot be acceded to”. Also, ESFB was not permitted to open new branches and further restrictions may be imposed if the bank fails to make satisfactory progress towards listing of its shares. “Listing of Small Finance Banks (SFBs) within three years of reaching net worth of Rs. 500 crore is mandatory as outlined in the guidelines for licensing of SFBs and as communicated to the bank at the time of granting of ‘in-principle’ approval and granting of license, thereafter,” said the RBI letter. Earlier this year, the company said it would list the bank without an initial public offering (IPO) by giving its existing shareholders a direct 47% stake in the small finance bank.
Since the announcement of this scheme, the stock has lost 8%. In September last year, the Reserve Bank of India (RBI) had barred Bandhan Bank from opening new branches without its approval and ordered the bank to freeze the salary of its chief executive Chandra Shekhar Ghosh over its failure to meet shareholding norms. According to RBI's bank licencing guidelines, the bank's promoter, Bandhan Financial Holdings Ltd, had to reduce its stake from 82% to 40% within three years of commencing business. In January, the Kolkata-based bank announced the acquisition of Gruh Finance Ltd, the affordable housing finance arm of Housing Development Finance Corp. (HDFC), in a share swap deal to lower the promoter holding of Bandhan Financial Holdings in the bank.


Dated: Sep 07, 2019

- **Finance Ministry Sets Up Task Force To Identify Infrastructure Projects Worth Rs. 100 Trillion:**

  The government has set up a task force to identify technically and economically viable infrastructure projects that can be kick started in the current financial year and can be included in the ₹100 trillion plan for the sector in the next five years. The finance ministry on Saturday said the task force will draw up plan for the ‘national infrastructure pipeline’ from 2019-20 to 2024-25. The announcement comes at a time when growth has slowed to a six-year low of 5% in April-June, amid sluggish demand, slowdown in automobile sector and job losses. The government has been taking steps to bring India back on the growth trajectory and achieve the target of $5 trillion economy by 2024-25. “Availability of quality infrastructure is a pre-requisite to achieve broad-based and inclusive growth on a sustainable basis. Investment in infrastructure is also necessary for sustaining the high growth rate of India. To achieve the GDP of $5 trillion by 2024-25, India needs to spend about $1.4 trillion (Rs. 100 lakh crore) over these years on infrastructure. ,” the finance ministry said in a statement. The task force, headed by the finance ministry’s economic affairs secretary, along with five other officials from policy think tank NITI Aayog and senior government officials. The committee will estimate annual infrastructure investment costs, guide the government departments in identifying appropriate sources of financing, suggest measures to monitor the projects so that cost and time overrun is minimized. “The challenge is to step-up annual infrastructure investment so that lack of infrastructure does not become a binding constraint on the growth of the Indian economy,” the statement said. The national infrastructure pipeline will include greenfield and brownfield projects with an estimated cost of more than Rs. 100 crore each. “Each ministry/department would be responsible for monitoring of projects so as to ensure their timely and within-cost implementation. The task force will also enable robust marketing of the pipeline of projects requiring private investment through the India Investment Grid (IIG), National Investment & Infrastructure Fund (NIIF), etc,” it said. The task force will submit the report on the plan for 2019-20 by October 31 and on the indicative pipeline for 2021-25 by December 31. In his Independence Day speech, Prime Minister Narendra Modi had said ₹100 lakh crore will be spent towards infrastructure creation in the country. The last five years have seen massive spending on
roads, railways, water, irrigation and urban infrastructure. Connectivity, both physical and digital, which has a multiplier effect on the economy, is a key development goal for the Modi administration in its second term as it seeks to steer the economy away from unfavorable headwinds to become the fifth largest in the world.

Dated: Sep 07, 2019

• **SBI Sought Issuance Of 147 Look Out Circulars In Last Five Month:**

Data shows that the bank started seeking LoC from the Bureau of Immigration from April this year. The Country's largest public sector bank -- State Bank of India -- sought issuance of 147 Look Out Circulars (LoC) in the last five months in connection with bank fraud cases, an RTI response from the bank said. Data shows that the bank started seeking LoC from the Bureau of Immigration from April this year. Between April and August, it issued request seeking LoC against 147 individuals to prevent them from leaving the country, the bank said in response to an RTI query filed by Pune-based activist Vihar Durve said. On October 12, 2018, the Home Ministry included Chairman, Chief Executive Officers and Managing Directors of public sector banks in the list of individuals who can seek issuance of Look Out Circulars against offenders to prevent their escape from the country, it said. According to data provided in Parliament in December last year, about 49 economic offenders have escaped to different countries and the government is making attempts to bring them back. Fugitive liquor baron Vijay Mallya, diamantaire Mehul Choksi and his nephew Nirav Modi, industrialists Nitin and Chetan Sandesara are among 58 economic offenders probed by the CBI, Enforcement Directorate and other agencies who have escaped abroad, it says. Although top officials of public sector bank were empowered last year to seek issuance of LoC against individuals, relevant guidelines were framed by the Indian Banks' Association in March this year, the Association told Durve. The guidelines were considered necessary after public sector banks approached the Association seeking legal protection and immunity available to police and the CBI while issuing the LoCs, it said. Durve had approached the Finance Ministry seeking to know details about the request for issuance of LoC received from various authorities between 2017 and 2019, action taken on them among other things. The Finance Ministry transferred the application to the Home Ministry and Public Sector Banks to furnish the information. The Home Ministry then transferred the application to the Bureau of Immigration (BOI), which works under the Intelligence Bureau. The BOI sought refuge from disclosure under the Section 24 of the RTI Act which exempts it from the ambit of the transparency law. However, State Bank of India in its response to Durve said it has sought issuance of 147 Look Out Circulars while Union Bank of India replied the information was not in its domain. UCO Bank said it does not issue Look Out Circulars while Punjab and Sindh Bank said their MD and CEO were authorized to issue the LoCs but “there is no such data” available. Bank of Baroda said the information does not pertain to it and Canara Bank said no requests for LoCs were made by it in the period. In FY19, the banking sector reported 6,801 frauds involving Rs 71,542.93 crore as against 5,916 cases involving Rs 41,167.04 crore reported in 2017-18, the Reserve Bank of India has said in its latest report. Among bank groups,
PSBs, which have the largest market share in terms of lending, accounted for the majority of frauds reported in 2018-19. It was followed by private sector banks and foreign banks. In the reporting year, state-run banks reported 3,766 cases of frauds worth Rs 64,509.43 crore. The report said that the average lag between the date of occurrence of frauds and its detection by banks was 22 months. The average lag for large frauds, i.e. Rs 100 crore and above, amounting to Rs 52,200 crore reported during 2018-19, was 55 months,“ it said. Cheating and forgery were the major component, followed by misappropriation and criminal breach of trust. Fraud cases involving an amount of less than Rs 1 lakh (i.e., small-value frauds) were only 0.1% of the total amount involved in 2018-19, the report showed.

Dated: Sep 08, 2019

- PNB Puts Up For Sale 11 NPA Accounts To Recover Dues Of Rs 1,234 Crore:

State-owned Punjab National Bank (PNB) has put up for sale nearly a dozen non-performing assets (NPA) to recover dues of more than Rs 1,234 crore. The lender has invited bids from asset reconstruction companies (ARCs)/ NBFCs/ banks/ financial institutions for 11 NPA accounts. The accounts include Visa Steel, which has irrecoverable dues of Rs 441.83 crore, IndBarath Energy (Utkal) Rs 414.23 crore, Aster Pvt Ltd Rs 113.57 crore and Om Shiv Estates Rs 100.16 crore. The sale is on 100 per cent cash basis, PNB said in an advertisement. The bank has asked the prospective bidders to expedite the process of due diligence, saying it will make all possible efforts to bring copies of documents at one place for verification. The prospective buyers shall be intimated separately, depending upon their response. The prospective bidders can evince their interest by September 12. The last date to submit bids is September 20, 2019. The bids will be opened on September 21. The lender is set to merge two peer banks -- Oriental Bank of Commerce and United Bank of India with itself following the government’s announcement late last month to consolidate 10 public sector banks into four bigger entities.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/pnb-puts-up-for-sale-11-npa-accounts-to-recover-dues-of-rs-1234-crore/articleshow/71035376.cms
Dated: Sep 08, 2019

- RBI’s Diktat May Not Lead To Lower Rates Of Lending:

Last week, the Reserve Bank of India (RBI) issued a circular instructing banks to link all new floating rate retail loans, as well as floating rate loans to micro, small and medium enterprises (MSMEs), to an external benchmark from 1 October. Banks are supposed to link the interest rate on their floating interest retail loans, as well as floating rate loans to MSMEs, to an external benchmark such as the repo rate of RBI or returns on treasury bills issued by the government. The repo rate is the interest rate at which RBI lends to banks, whereas treasury bills are short-term financial securities with a maturity period of less than a year, issued by the government to finance its fiscal deficit. The interest rates can be reset at least once every three months. The idea is to ensure that lending rates of banks move in line with the repo rate of RBI. The transmission of the monetary policy of the central bank during this year has been very
RBI has cut the repo rate by 110 basis points from 6.5% to 5.4% since January. One basis point is one-hundredth of a percentage point. The weighted average lending rate on outstanding loans of commercial banks operating in the country was 10.38% as of January. By June, this had gone up by five basis points to 10.43%. With RBI cutting the repo rate, the expectation was that bank lending rates will also come down. However, that hasn’t happened. Banks are holding on to their lending rates. The bad loans of banks, in particular public sector banks, remain high. So banks are looking to earn a higher spread on their loans to cushion the impact of a large number of bad loans.

The spread, the difference between the weighted average lending rates of banks and the weighted average domestic term deposit rate, was around 3.2% between July 2014 and July 2015. That was the time RBI launched the asset quality review and forced banks to recognize their bad loans. Once this happened, banks started raising their spreads so that they made a higher profit against which they could provision their bad loans and even write them off. The margin has recently fallen, but is still a high 3.59%. Banks may also have to move towards floating rate fixed deposits, something that goes against the very idea of fixed deposits.

Hence, banks will follow RBI’s diktat in letter, but not in spirit. They will ensure their mark-up over the external benchmark is high enough to not have an impact on the current spreads they are operating at. Market forces usually find a way to get around diktats they don’t want to follow. This time will be no different.

Source: https://www.livemint.com/industry/banking/rbi-s-diktat-may-not-lead-to-lower-rates-of-lending-1567958949097.html
Dated: Sep 08, 2019

• **18 PSBs Hit By 2,480 Cases Of Fraud Of Rs 32,000 Cr In Q1:**

A total of 2,480 cases of fraud involving a huge sum of Rs 31,898.63 crore rattled 18 public sector banks in the first quarter of this fiscal, an RTI query has revealed. The country’s largest lender State Bank of India (SBI) remained the biggest prey to frauds with 38 per cent share, Neemuch-based activist Chandrashekhar Gaur told on Sunday quoting an official of the RBI who furnished him replies to his RTI application. As many as 1,197 cases of cheating involving Rs 12,012.77 cr were detected in SBI in the first quarter, according to the RTI reply. After SBI, Allahabad Bank faced the heat with 381 cheating cases involving Rs 2,855.46 crore. Punjab National Bank stood third in the list with 99 sham cases worth Rs 2,526.55 crore. However, the information provided by the RBI does not give specific details of the nature of banking fraud and the losses suffered by banks or their customers. On losses suffered by PSU banks due to frauds, the RBI said it did not have figures available as to how much amount was lost by these banks during the period under review. A total of 75 cases of fraud involving Rs 2,297.05 crore were reported in Bank of Baroda in the first quarter, while 45 cases of fraud amounting...
to Rs 2,133.08 crore in Oriental Bank of Commerce, 69 cases worth Rs 2,035.81 crore in Canara Bank, 194 cases worth Rs 1,982.27 crore in Central Bank of India, 31 cases of fraud of Rs 1,196.19 crore in United Bank of India were witnessed. Likewise, Corporation Bank detected Rs 960.80 crore worth fraud in 16 cases, Indian Overseas Bank Rs 934.67 crore in 46 cases, Syndicate Bank Rs 795.75 crore in 54 cases, Union Bank of India Rs 753.37 crore in 51 cases, Bank of India, Rs 517 crore in 42 cases and UCO Bank detected Rs 470.74 crore fraud in 34 cases. Other banks, which fell victim to fraud included Bank of Maharashtra, Andhra Bank, Indian Bank and Punjab and Sind Bank.


Dated: Sep 09, 2019

• No Slowdown In Lending To The Poor In July 2018-July 2019:

Loans to corporate world may be hard to come by but the weaker sections and poor are benefitting from increased access to formal credit and the segment saw one of the highest growths in the past year. Lending to weaker sections, which are essentially small-ticket priority sector loans of around Rs 1 lakh, extended to the bottom of the period, rose 26.1% between July 2018 and July 2019 with an aggregate loan portfolio of Rs 6.7 lakh crore. Against that, loans to large industries rose only about 7%, though the portfolio is almost four times bigger in size. Even micro-finance and tiny-sized loans to the poor rose 52% in the year from July 2018 to July 2019. With the exception of certain retail segments like home loans, unsecured lending and credit card receivables, most other segments posted lower growth rates in the period. Bankers attribute the rise in such loans to increased assess of banking services to the bottom of the pyramid as the government has been pushing financial inclusion and digitisation of financial services following the withdrawal of high value Rs 500 and Rs 1,000 denomination notes in November 2016. “The trend clearly indicates the formalisation of the economy,” said SK Ghosh, group chief economist at State Bank of India. “As many in this lowest segment of the economy now have bank accounts, they are borrowing from the formal sector.” “Our surveys suggest that the recent fluctuations in economic activities have been materially less pronounced in case of the absolute bottom end of the socio-economic pyramid,” Siddhartha Sanyal, chief economist and head of research, Bandhan Bank. “This might have helped borrowing propensity, especially for income-generating loans, to sustain.” Economists also do not rule out the possibility of some kind of ‘down trading’ in terms of lower expenditure and opting for less expensive goods and services because of the slowdown and loss of income. This could be benefitting the bottom of the pyramid in a very indirect way, facilitating bank borrowings from this segment. “Greater fluctuations in economic activities in a large number of sectors have caused some dent in consumer confidence,
which might be influencing consumers to opt for less expensive options. That might have offered some support for the lower end of the producers in a roundabout fashion,” Sanyal said.

Dated: Sep 09, 2019

• **Govt Introduces Code Of Conduct, Performance Rating For Non-Official Directors At PSBs:**

The finance ministry has come out with a code of conduct for non-official directors of Public Sector Banks (PSBs) and asked the boards to send an annual performance report that rates a director based on professional and ethical conduct, and contribution to the board. In a communication to the MDs of all PSBs, the department of financial services at the finance ministry said that the government has decided to institute certain measures to improve corporate governance in banks. The measures include the introduction of a code of conduct, a requirement that the non-official directors undergo a familiarization of banking practices, and a peer-reviewed performance appraisal of the directors. The finance ministry pointed out that while SEBI had a code for independent directors, which provides for their performance evaluation, the provisions do not apply to PSBs as they do not come under the Companies Act. “While Banking Companies Act does not define independent directors, non-official directors, including non-executive chairmen, are similar,” the communication said. The performance evaluation by peers will measure the director on various parameters including avoidance of direct or indirect conflict of interest, acting according to rules and in the best interest of the bank, avoiding any gain to self or associates and maintaining confidentiality. The code of conduct for directors lists a set of dos and don’ts. One interesting point in this is that each non-official director has to ensure that if there are any related-party transactions, these have to be adequately discussed in the board before being approved. Other points include ensuring that the bank has a proper vigil mechanism and that the interests of a person who uses such a mechanism are not prejudicially affected on account of such use. The director also must ensure that when they have any concern about the running of the bank or any action, such actions are addressed by the board.

Dated: Sep 09, 2019

• **RBI Cracks The Whip On Office Account Misuse:**

Amid a rise in frauds, the Reserve Bank of India has alerted all lenders of instances where ‘intermediary’ or transitory accounts in banks have been misused to hide bad loans or mask money laundering. The banking regulator has directed banks to carry out internal review of such unauthorized transactions and submit their findings by October. Funds often lie for a day or two in intermediary or office accounts opened in bank branches before the money is credited to the actual beneficiary. A branch manager may dip into such an account to give unauthorized overdraft facility to enable a borrower regularize a loan and avoid default before the close of a quarter or the due date for servicing the loan or just before the loan account is about to be classified as Non-
Performing Asset (NPA). Within a day or so the transaction is reversed as the borrower arranges fund to repay the Overdraft (OD). “If the borrower cannot organize fund, the branch manager may tap another office account to extend a fresh overdraft to close the earlier OD. These are unsanctioned ODs and it all depends on the rapport the borrower shares with the branch head,” said a senior banker. Even if the borrower defaults on the second OD, he has a month before the account is categorized as NPA, he said. Such temporary office accounts may also come handy in depositing unexplained cash. Instead of directly crediting the cash deposited into a customer’s account, the amount is parked in the intermediary account of the branch. Later, when the money is moved from the office account to the customer’s account, it is shown as a normal banking transaction with the cash element in the first leg remaining undisclosed. As a result, the branch is not required to report any abnormal ‘cash deposit’ to the Financial Intelligence Unit (FIU) the government’s nodal agency which processes and disseminates information on suspicious financial transactions. Office accounts receive temporary funds when cheques are presented for clearing. The amount is not credited to customers’ accounts immediately but held in an office account. As and when the cheques are cleared, the office account is debited and the customers’ accounts credited. The unauthorized transactions, happening within 24 to 48 hours, are typically intended to accommodate favored customers and help them as well as the bank escape regulatory scrutiny. Branch managers of banks, particularly state-owned lenders, have the power to open multiple intermediary accounts. “In some banks, the process is centralized and branch managers have to take the authorization of a senior official may be at the level of a general manager, before opening office account. In many banks, it is not. More than a month ago, RBI told banks it has come across cases where bank branches have indulged in such undesirable practices, involving the core banking system. Now, all banks will have to do an audit, reconcile accounts, and update the regulator on the control procedures,” said the compliance head of a bank. While the clampdown on cash deals and close vigil on NPAs may have prompted many bank managers to use office accounts, they are also under pressure to retain clients, said the bank official.

With Stake Sales, Yes Bank Is Now Poised For A Makeover:

Yes Bank’s shareholding structure may witness a major churn by the year-end as founder Rana Kapoor has initiated talks to sell a part of his holding to One97 Communications Ltd, the parent of Paytm and Paytm Payments Bank. Independently, a Reuters story on Tuesday cited Yes Bank CEO Ravneet Gill as saying that the bank is close to selling a minority stake to a global tech company as part of its capital-raising exercise. Although the bank subsequently denied these reports, Mint has
Independently verified that such talks might have indeed progressed somewhat. The tech firm's association is expected to help further the bank's digital ambitions. The bank has already been talking to large private equity firms for capital infusion. On 30 August, Yes Bank's board proposed to increase the bank's authorized share capital from Rs. 800 crore to Rs. 1,100 crore to enable an expansion in the paid-up capital. If Rana Kapoor does manage to sell his stake to One97 Communications, or any other shareholder, it will not make any difference to the bank's capital structure. Fresh equity issuance, on the other hand, will lead to dilution in promoter shareholding. According to senior executives at Yes Bank, the promoters are willing to reduce their shareholding following this stake sale and also amend the articles of association, letting new shareholders get a board seat. “We are open to reducing stake if the bank decides to sell a minority stake to a global tech firm,” Shagun Gogia told Mint. Gogia is co-promoter Madhu Kapur's daughter and an additional director on the Yes Bank board. Madhu Kapur and her offices hold 9.17% stake in the bank, as of 30 June. Rana Kapoor and his family offices hold 10.6% stake in the bank. A person close to Yes Bank's co-promoter Rana Kapoor's family said the stake sale to One97 would be completed through the stake held by Kapoor and his promoter group entity Morgan Credits Pvt. Ltd (MCPL); the combined holding of these two entities in Yes Bank is around 7.34%. “There have been discussions between Kapoor, Yes Bank and several FINTECH firms including One97 Communications Ltd since August,” said the person cited earlier. A statement issued by the bank to stock exchanges said: “The Bank in its usual and ordinary course of business continues to explore various means of raising capital/funds through issuance of securities to diverse set of investors, in order to meet its business/regulatory requirements, subject to compliance with prescribed procedures and receipt of statutes/regulatory approvals.” A One97 Communications spokesperson declined to comment on the story. Kapoor also declined to comment on this story. An email sent to Yes Bank also did not elicit a response. If true, the deal will require RBI's approval, given that One97 holds the license for a payments bank. Questions are bound to be raised over whether the license holder of a payments bank should be allowed to acquire a stake in a universal bank as it might be seen as a workaround. In addition, the widening of One97 Communication's losses, as reported in Mint on Tuesday, is bound to weigh on the approval process. Kapoor and MCPL also need to obtain consent from Reliance Nippon Life Asset Management Ltd (RNAM) to sell their stake, given that around 7.34% is pledged with RNAM. When contacted, an RNAM spokesperson said, “Reliance Nippon Life Asset Management has not given any consent and is not in discussion with anyone about Yes Bank's pledged shares.” Yes Bank co-promoter Rana Kapoor and his family-owned firm MCPL had to pledge their entire 7.34% or 170.25 million shares with RNAM. This was done because RNAM wanted to convert a previously unsecured loan (given to MCPL through non-convertible debentures) into a secured loan as the bank's stock has lost 80% over the past year. Last year, MCPL raised Rs. 1,160 crore by selling non-convertible debentures to RNAM. A prepayment of Rs. 200 crore was made by MCPL to Reliance MF in November. The loan pact mandates that the value of Yes Bank shares (held by Kapoor and MCPL) should always be greater than double the loan outstanding. The value of these 170.25 million shares as on Tuesday is around Rs. 1,182.13 crore. Yes Bank is in desperate need of fresh capital to improve its common
equity tier-1 (CET-1) ratio adequately above the statutory requirement of 7.375% to stay afloat. The bank’s CET-1 ratio is marginally above this at around 8.6% after it completed its Rs. 1,930 crore stock sale to institutional investors last month. On 16 August, Mint reported that the bank is looking to raise an additional $600 million after raising $270 million from large investors through a qualified institutional placement. The Yes Bank stock has been falling steadily since RBI indicated in August 2018 that Kapoor’s term as the bank’s CEO would not be renewed after January 2019. Since 20 August last year, Yes Bank shares have lost over 80% to Rs. 63.10 as of Monday on the BSE. Both MCPL and Yes Capital (India) Pvt. Ltd (which holds 3.26% in the bank) are fully owned by Kapoor’s three daughters. In September 2018, after Yes Bank co-promoter Madhu Kapur sold a part of her holding, Rana Kapoor had tweeted how he regarded his shares as “diamonds”.

Source: https://www.livemint.com/industry/banking/with-stake-sales-yes-bank-is-now-poised-for-a-makeover-1568138845867.html
Dated: Sep 10, 2019

- RBI Cracks The Whip On Office Account Misuse:

Amid a rise in frauds, the Reserve Bank of India has alerted all lenders of instances where ‘intermediary’ or transitory accounts in banks have been misused to hide bad loans or mask money laundering. The banking regulator has directed banks to carry out internal review of such unauthorized transactions and submit their findings by October. Funds often lie for a day or two in intermediary or office accounts opened in bank branches before the money is credited to the actual beneficiary. A branch manager may dip into such an account to give unauthorized overdraft facility to enable a borrower regularize a loan and avoid default before the close of a quarter or the due date for servicing the loan or just before the loan account is about to be classified as non-performing asset (NPA). Within a day or so the transaction is reversed as the borrower arranges fund to repay the overdraft (OD).

“If the borrower cannot organize fund, the branch manager may tap another office account to extend a fresh overdraft to close the earlier OD. These are unsanctioned ODs and it all depends on the rapport the borrower shares with the branch head,” said a senior banker. Even if the borrower defaults on the second OD, he has a month before the account is categorized as NPA, he said. Such temporary office accounts may also come handy in Depositing unexplained cash. Instead of directly crediting the cash deposited into a customer’s account, the amount is parked in the intermediary account of the branch. Later, when the money is moved from the office account to the customer’s account, it is shown as a normal banking transaction with the cash element in the first leg remaining undisclosed. As a result, the branch is not required to report any abnormal ‘cash deposit’ to the Financial Intelligence Unit (FIU) the government’s nodal agency which processes and disseminates information on suspicious financial transactions. Office accounts receive temporary funds
when cheques are presented for clearing. The amount is not credited to customers’ accounts immediately but held in an office account. As and when the cheques are cleared, the office account is debited and the customers’ accounts credited. The unauthorized transactions, happening within 24 to 48 hours, are typically intended to accommodate favored customers and help them as well as the bank escape regulatory scrutiny. Branch managers of banks, particularly state-owned lenders, have the power to open multiple intermediary accounts. “In some banks, the process is centralized and branch managers have to take the authorization of a senior official, may be at the level of a general manager, before opening office account. In many banks, it is not. More than a month ago, RBI told banks it has come across cases where bank branches have indulged in such undesirable practices, involving the core banking system. Now, all banks will have to do an audit, reconcile accounts, and update the regulator on the control procedures,” said the compliance head of a bank. While the clampdown on cash deals and close vigil on NPAs may have prompted many bank managers to use office accounts, they are also under pressure to retain clients, said the bank official.

• **PNB, UBI & OBC Forms Working Groups To Oversee Merger Process:**

State-run Punjab National Bank, the anchor bank for the merger of United Bank of India and Oriental Bank of Commerce with it, on Wednesday, said the three lenders together have formed 23 working groups for overseeing the amalgamation process. Last week, the board of PNB has given in-principle approval for amalgamation of Oriental Bank of Commerce (OBC) and the United Bank of India (UBI) with it. “The amalgamation has to be in terms of technology, products and services, and common services. We all are working on this and have created 23 working groups in all the three banks,” PNB’s managing director and CEO, Sunil Mehta, told reporters here. These groups, which will be working on various banking aspects such as product, processes and human resources, will have participants from the three banks, Mehta said on the sidelines of the 72nd annual general meeting of Indian Banks’ Association. He said as of now there are 23 working groups but may increase the number, if needed. He sees a lot of synergies within the three banks. “OBC has a good system and processes. They have got overlapping presence with PNB, which can be of advantage and we can optimise on our resources. We do not have a presence in the eastern and north-eastern part of the country, where United Bank has good presence,” Mehta said. He also said the amalgamation will not lead to any retrenchment of employees and there is no plan to come out with a voluntary retirement scheme (VRS). Oriental Bank of Commerce and United Bank will merge into Punjab National Bank to create a bank with Rs 17.95 lakh crore business and 11,437 branches. Last month, the government had 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. Other sets of mergers are -- 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.


Dated: Sep 11, 2019

• **IBA Inducts Karnataka Bank CEO On Managing Committee:**

The Indian Banks Association (IBA) has inducted Karnataka Bank’s MD & CEO Mahabaleshwara MS in its managing committee. The IBA announced this at its AGM on September 11. He was elected unopposed from the Private Sector Member Banks’ category, a press release said. “I feel honored to become a member of the Managing Committee of IBA,” Mahabaleshwara said. The IBA consists of public sector, private sector and foreign banks with 253 members.

Source: [https://economictimes.indiatimes.com/industry/banking/finance/banking/iba-inducts-karnataka-bank-ceo-on-managing-committee/articleshow/71082038.cms](https://economictimes.indiatimes.com/industry/banking/finance/banking/iba-inducts-karnataka-bank-ceo-on-managing-committee/articleshow/71082038.cms)

Dated: Sep 11, 2019

• **Boards Of Allahabad Bank, Andhra Bank Schedule Meeting For Merger Proposals:**

Allahabad Bank on Wednesday said its board of directors will meet next week to consider its amalgamation with Indian Bank. Also, Andhra Bank said its board will meet on September 13 to consider and approve amalgamation of it along with Corporation Bank in to Union Bank of India.”A meeting of the board of directors of the bank is scheduled to be held on Monday, 16th September, 2019, to consider amalgamation of Allahabad Bank with Indian Bank,” the Kolkata-headquartered bank said in a regulatory filing. Finance Minister Nirmala Sitharaman last week had announced to merge 10 public sector banks (PSBs) into four lenders aimed at creating stronger and bigger banks. In the biggest consolidation exercise in the banking space, the government on August 30 had announced four major mergers of PSBs, bringing down their total number to 12 from 19, a move aimed at making state-owned lenders the global-sized banks.

According to the consolidation exercise, United Bank of India and Oriental Bank of Commerce are to be merged with Punjab National Bank, making the proposed entity the second largest public sector bank (PSB). Syndicate Bank is to be merged with Canara Bank. The board of Punjab National Bank on September 5 gave its in-principle approval for amalgamation of Oriental Bank of Commerce and United Bank of India into itself. PNB also said that, with this approval, it commences the amalgamation process, subject to all applicable approvals. India has seen merger of six associate banks along with SBI and the Bharatiya Mahila Bank with the country’s largest lender in the financial year beginning April 2017. Following next year, Bank of Baroda had merged Vijaya Bank and Dena Bank with itself. Earlier this week on Monday, Union Bank of India had said its board of directors has approved merger of Andhra Bank and Corporation Bank with itself. Stock of Allahabad Bank closed 1.21 per cent higher at Rs 33.50 on the BSE, Andhra Bank ended up 3.17 per cent at Rs 19.55 apiece.

Source: [https://economictimes.indiatimes.com/industry/banking/finance/banking/boards-of-](https://economictimes.indiatimes.com/industry/banking/finance/banking/boards-of-)


Government Ask Banks To Approach NCLT As Last Resort:

The government on Wednesday asked banks to put in all efforts to resolve bad loans themselves and approach National Company Law Tribunal (NCLT) only in the absence of any alternative. Minister of State for Finance and Corporate Affairs Anurag Thakur said NCLT route should not be used by bankers to resolving stressed accounts on a daily basis. “I would request bankers to try and resolve stressed assets in the right earnest and refer cases to NCLT only if satisfied resolution outside the NCLT process is not available,” Thakur said at the 72nd annual general meeting of Indian Banks’ Association (IBA).

He assured bankers to take decision to lend to the industry without any fear of ‘witch-hunting’ in future by any investigatory agencies. “I want to assure you (bankers) that the decisions taken by you in course of business in good faith with a sound business rationale will not face any witch-hunt,” the junior minister said. Bankers should timely report frauds without any fear of repercussions, he said. Thakur said despite a 110 basis points repo rate reduction by the Reserve Bank of India over the last few months, banks have not passed on the full benefit to the consumers. “Only a fraction of the rate cuts benefits were passed-on by the banks to borrowers. I appeal to banks to further pass on the benefits of the rate cuts to companies which will lead to an increase in the consumption cycle, thereby, leading to a revival in their investments,” he said.

In the last five years, the government has recapitalised public sector banks (PSBs) by over Rs 2 trillion, and recently also announced an immediate capital infusion of Rs 70,000 crore in these lenders. Thakur said the banks are being encourage to lend more to NBFCs, which will improve the availability of credit in the market and reduce the liquidity crunch. “I am positive that the steps taken by the RBI mandating the banks to link their fresh retail loans issued from October 1 to an external benchmark will lead to cheaper funds for the borrowers,” he said, adding that it will also reduce the cost of working capital loans for the industry. He also requested IBA to look into the transfer and human resource policies at banks, especially for women employees. “If you are going away thousands of kilometer away from your home, and if you are not mentally there then ultimately it is going to impact customers,” Thakur said.


But Is Big-Bang Bank Mergers A Solution?:

The scheduled amalgamation of public sector banks (PSBs) at this juncture poses a drastic change to India’s socioeconomic condition. It brings with it issues not only of cultural and managerial alterations, but also various financial conflicts, such as interse disputes between the banks that could affect lending as well as recovery. Issues could include something as simple as an internal hierarchical muddle to more direct and larger conflicts like priority of charge on securities in cases of common stressed assets, and the different recovery process being followed by each bank. A key reason for the merger is the weight of mounting bad loans over the years. While various laws have been brought in force to deal with such stressed assets, are these mergers an effective step to shed
the weight of such bad loans? The merger of public sector banks raises a considerable risk to the recovery process, which may differ from one bank to another. In the case of stressed assets, the creditors’ pool could be common, which may include several of the merged public sector banks while their hierarchy in the list of creditors would vary. There can be situations where one bank may have taken a different stand from the other bank in relation to the same stressed asset, leading to inconsistent claims where conflict of interest will be evident. This could lead to prolonging the recovery process so as to resolve the situation — which, in turn, could be perceived as a threat by strategic investors. Such operational problems arise as the merged entity would be represented as a joint entity. There may be a scenario in which the pending recovery action by Bank A will have to be continued by Bank B despite hurdles — or, in a common borrower case, under the insolvency process, if Bank A has objected to a resolution plan and Bank B has supported it. The impact may then have to be reviewed. But this may be resolved if the merged entity were to adopt and develop an effective internal mechanism to resolve such conflicts in the ongoing recovery proceedings. This process could kick off by weighing the interests or claims of each bank entangled in such conflict and by balancing the pros and cons in the interest of the merged entity. Necessary steps to assess the risk and outcome of such situations are inevitable. The merger will entail movement of staff, bringing about situations where, say, a different team, having conducted no forensics with respect to stressed accounts, is deployed leading to ineffective recovery steps. Forensics on non-performing asset (NPA) accounts often get lost during such a transition phase of merger, especially when the latter happens to be of a large scale. The merged entity is also likely to face post-disbursement risks and detection of fraudulent accounts or transactions in this transition phase, not to mention staff accountability issues. These can be resolved by issuing specific guidelines for maintaining proper documentation of each account, in a uniform manner across the banks prior to the merger. It is necessary that resources be dedicated towards engaging competent teams to oversee and resolve issues arising out of such a transition phase. The merger also raises the threat of differences in prioritisation, in which the factors for internal risk assessments based on the forensics can vary between the banks. This is more likely since the merging banks are almost at the same level, thereby increasing the possibility of a rift. While non-performing assets and their resolution are one of the major factors for the merger, what remains to be seen is whether such an action really provides a solution. Whilst it may have played a crucial role for GoI to infuse funds into public sector banks, with the current economic conditions, one needs to wait and watch for actual benefits accruing.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/but-is-big-bang-bank-mergers-a-solution/articleshow/71087411.cms
Dated: Sep 12, 2019

- **HDFC Bank Doubles Mid-Corporate Loan Book To Over Rs 90,000 Crore In 3 Years:**

HDFC Bank has more than doubled its mid-corporate loan book to over Rs 90,000 crore in the past three years, arguably making it the largest player in the segment. If the bank maintains its June quarter loan growth rate of 21 per cent in the ongoing quarter as well, which analysts see quite likely, the second largest lender will race past the Rs 1-lakh-crore milestone by the month-end itself. Mid-
corporates are those firms with an annual turnover of Rs 200 crore to Rs 1,000 crore. Out of the Rs 4.07 lakh crore of its wholesale banking book, over Rs 90,000 crore was from the mid-corporate segment, which the bank tags as emerging corporate group, as per its June quarter balance sheet. The mid-corporate loan book was just about Rs 45,000 crore in June 2016 and doubled to Rs 90,000 crore in June 2019, a senior bank official, who did not wish to be identified, said. At the system level, around 15 per cent or Rs 9 lakh crore of the Rs 60 lakh crore wholesale loan book are mid-corporate loans. What is significant is that it’s not just the bulging loan book where HDFC Bank leads the industry, but also in terms of the geographical coverage of mid-corporate segment. In the latter segment, the bank has presence in 49 cities with 180 dedicated relationship managers servicing over 3,500 companies. Three years ago, in the mid-corporate segment, the bank was present in 18 cities and the number of clients was around half of over 3,500 now. The bank plans to add at least 10-15 cities more over the next couple of years, the official said, adding this has the bank leading the space by at least two times its immediate rival in terms of the number of centres as also the clients. Of the Rs 90,000 crore emerging corporate loan book, the official said around Rs 7,000 crore are the bank’s exposure to the debt papers (mostly Commercial Papers and Non-Convertible Debentures) from these target companies, while 70 per cent of the book is working capital loans. Nirav Shah, the country head for emerging corporate group at the bank, attributes the faster growth to the sharper focus and the holistic approach that the bank offers. “Banking today is no longer just supplying credit. We don’t believe in that either. “We offer tailor-made solutions to each of our clients. Be it in helping them better manage cash, supply chains and logistics or even in book-keeping, forex advisory and hedging, we offer all these services for free. I think this is what has helped us grow faster than the industry,” Shah, who has spent more than two decades at the bank, told PTI. To put it pithily, he said that customers are looking for value additions, beyond mere loans today, “which we offer helping us become the most penetrated banker in this segment today”. When Shah, who also heads the infra finance and rural banking groups at the bank, took over the division in 2011, the emerging corporate book was a paltry Rs 15,000 crore and was part of the wholesale banking group. The average ticket size of these loans are of Rs 40 crore having a tenor of five to seven years, Shah said. Industrial credit for the system has been growing at 6-7 percent for the past many years, but for HDFC Bank this has been over 20 percent without fail, Shah said but refused to offer a guidance citing the management policy. “All I can tell you is that we will grow much faster than the industry in every segment of our business, including mid-corporates,” he said. On the asset quality front, HDFC Bank is the only lender that has not been affected by the NPA (Non-Performing Assets) pain in all these years, Shah said. In fact, the NPA ratio is substantially lower in the mid-corporate loan segment compared to 1.4 at the bank level in the June quarter. “This is in spite of the fact that over 85 percent of these companies are privately held, and more than 90 percent of them are rated AA and below. I don’t think there is a single AAA-rated client we have in this segment at all. But of course none of these 3,500 plus are B- and below,” Shah said.

Dated: Sep 12, 2019
• **IBA Empaneled Agencies To Monitor Psb Funds Usage:**

The move to front-load Rs 55,000 crore into state-owned banks has a caveat; banks should ensure funds are not squandered. After a push from the Centre and the Reserve Bank of India (RBI), lenders are roping in monitoring agencies to track end-use of funds to stop promoters from siphoning bank loans. In all, 83 agencies empanelled by the Indian Banks Association (IBA) would be appointed by lenders on case-to-case basis depending on size of the corporate and the complexity of their business. “The idea is to see how related party transactions are happening and how loans are being used because the biggest issue is funds are not being used for the purpose they are meant to be,” said Rajnish Kumar, chairman, State Bank of India. “The idea is on an on-going basis to study the valuation of receivables, track stock valuation so that they are in line with the market prices and assets are not inflated.” Currently, if a consortium of banks offers a credit facility of Rs 5,000 crore, banks rely on the rating of the firm and audited financial statements. Newly appointed monitoring agencies will look beyond basic financial information and probe the conduits of money laundering like loans diverted to investment arms, related party transactions, fund diversion to shell companies and vendor background verification. Out of the Rs 3.5 lakh crore worth of loans involved in the first 12 accounts referred to bankruptcy courts, the government suspects that promoters siphoned off over Rs 1 lakh crore. The state has infused over Rs 3.1 lakh crore in PSU banks since 2015 but the market capitalisation of these banks excluding SBI is below the fund injected. Clearly the returns have been negative.“ As one looks at the many recent governance failures and the resultant loss of public money, it is evident there needs to be a significant step-up in governance practices around corporate’s access to and use of public funds,” said Sai Venkateshwaran, head, CFO advisory, KPMG in India. Most of the 12 state-owned banks are in an advance stage of roping in external agencies to monitor large loans. These agencies could include some consultancies, rating agencies or specialised firms with expertise in corporate forensic investigations, industry trackers said. “Banks are looking to rope in external monitoring agencies to augment their efforts in identifying opportunities for risk identification and taking timely action covering key accounts,” said Dhruv Phophalia, managing director, Alvarez & Marsal India.


Dated: Sep 12, 2019

• **PNB Chief Shri Sunil Mehta Rules Out Voluntary Retirement After Merger:**

Trying to assuage employee concerns on retrenchment as part of the upcoming merger, Punjab National Bank’s chief executive ruled out any voluntary retirement proposal for the staff and said employees from United Bank of India and Oriental Bank of Commerce could even get foreign postings. “There is no question of a voluntary retirement scheme (VRS),” said Sunil Mehta, managing director and chief executive, Punjab National Bank. Typically, in public sector bank mergers, some employees are given the option of taking voluntary retirement. Around 260 employees from Dena Bank had chosen to retire instead of joining Bank of Baroda.
In April 2017, State Bank of India (SBI) merged five of its subsidiaries with itself, and 4,000 employees from SBI and its associate banks had opted for voluntary retirement. Voluntary retirement schemes allow companies to trim their workforce by letting employees choose to leave in return for a severance payment. Mehta said finance minister Nirmala Sitharaman has already announced that there is not going to be any retrenchment and every employee is going to gain from it. He added that employees will get the best of the three banks in the amalgamated entity. “Suppose, United Bank is giving better benefits to their employees, then the same will be available to all in the amalgamated entity. So that way, no employee is going to lose out as there is no loss in value of their existing employment,” said Mehta. According to him, another advantage is that the large size of the amalgamated bank will provide staff a lot of opportunities. “For instance, United Bank or OBC do not have a foreign presence whereas PNB does. Therefore, employees of United Bank and OBC may get an opportunity to work overseas and get more exposure,” he said. PNB has a presence in Dubai, Hong Kong, United Kingdom (UK), Bhutan, Kazakhstan and Nepal. The timelines for the merger, he said, will be finalized by the board members when the detailed merger plan is worked out. These banks have created 23 working groups comprising officials from all three banks and will deliberate on issues including, human resources, products and processes. “This is not only a legal merger but has to be in terms of technology, product and services, and we have already created 23 working groups for products, processes and human resources. These have participants from three banks and each will work on various products of the three banks to merge the best features of these products and make a common one,” he said. While, PNB, United Bank and OBC are all on the same core banking platform of Infosys Finacle, the versions are not the same. PNB is on Finacle 10 and the other two are on Finacle 7 but Mehta believes that since the platforms are the same, integration will be faster. Following the merger, the bank will look to create new verticals and focus on new areas. “Public sector banks do not have very robust marketing structures, whereas most of the private sector banks do. When you merge some of the banks, you can find out a few people for marketing. Right now, most of the people are available for routine types of operations,” said Mehta. The bank, he said, will soon float a request for proposal for valuation of the bank under the amalgamation proposal. Sitharaman on 30 August announced the merger of Punjab National Bank, Oriental Bank of Commerce and United Bank. The other merger will be between Canara Bank and Syndicate Bank. Also, Union Bank of India will be merged with Andhra Bank and Corporation Bank, and Indian Bank will be merged with Allahabad Bank. Mint reported on 3 September that the proposed merger of 10 state-run banks into four entities is unlikely to ease credit flow to non-bank lenders since their post-merger exposure to the sector will continue to remain above their comfort level. Five banks—United Bank of India, Indian Overseas Bank, Central Bank of India, IDBI Bank and UCO Bank—are still operating under the RBI’s prompt corrective action (PCA) framework that is aimed at reining in banks that have breached regulatory thresholds in bad loans and capital adequacy.

Dated: Sep 12, 2019
• **BoB Seeks To Sell Dena Bank Headquarters In Bandra For Over Rs 530 Cr:**

State-run Bank of Baroda has put on block the erstwhile headquarters of Dena Bank in the financial capital at a reserve price of Rs 530 crore. Dena Bank and Vijaya Bank got amalgamated with Bank of Baroda in April, this year. The property situated in the tony Bandra Kurla Complex central business district has a land area of 2,878.36 sqm with a built-up area of 9,953.73 sqm. “Bank of Baroda invites bids for sale-cum-auction of Dena Corporate Centre in BKC through an e-auction,” according to an offer document published in newspapers Thursday. The auction will be held on October 18. However the banks said the movable furniture and other fixtures in the property are not be part of the auction. Bank of Baroda managing director PS Jayakumar had earlier said the three banks have presence in about 1,000 urban centres and that it would be relocating some of those branches to areas where it does not have presence. In rural areas, however, the overlaps of branches are extremely thin, he had said earlier. In May, a senior BoB official had said the bank would be rationalizing 800-900 branches across the country to improve operational efficiency, following the merger. The merger made BoB the third largest bank after State Bank of India and HDFC Bank.

*Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/bob-seeks-to-sell-dena-bank-headquarters-in-bandra-for-over-rs-530-cr/articleshow/71098082.cms*  
*Dated: Sep 12, 2019*

• **SBI Revises Service Charges For Deposits And Withdrawals From October 1:**

The State Bank of India will revise service charges for deposits and withdrawal on October 1 which will encompass cash withdrawal, average monthly balance, deposits and withdrawals and will affect scores of customers in many ways. On maintenance of average monthly balance (AMB), starting October 1, SBI has reduced the minimum average monthly balance requirement for urban centers from Rs 5,000 to Rs 3,000. Under the revised rules, if someone does not maintain Rs 3,000 as average monthly balance and falls short by 50 per cent (that is Rs 1,500) the individual will be charged Rs 10 plus GST. If the account holder falls short by more than 75 percent, it will invite a fine of Rs 15 plus GST. In semi-urban branches, SBI account holder needs to maintain an average monthly balance of Rs 2,000. In rural branches, the minimum average monthly balance will be Rs 1,000. If the shortfall is less than 50 per cent for semi-urban branches, then the extra charge will be Rs 7.50 plus GST. For between 50-75 per cent, the fine is Rs 10 plus GST and for above 75 per cent shortfall, the charge will be Rs 12 plus GST. In case of AMB of Rs 1,000 at rural branches, a shortfall of less than 50 per cent, charges are Rs 5 plus GST. For shortfall of over 50 per cent up to 75 per cent, the fees will be Rs 7.50 plus GST, while shortfall over 75 percent will attract fine of Rs 10 + GST. National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) charges are also set to change. While NEFT and RTGS transactions through digital means are free, fees are imposed at branches. NEFT transaction up to Rs 10,000, will invite Rs 2 plus GST charges. For a transaction above Rs 2 lakh via NEFT, the bank will charge Rs 20 plus GST. For RTGS transfer between Rs 2 lakh to Rs 5 lakh, a customer must pay Rs 20 plus GST. RTGS transfer above Rs 5 lakh will be charged Rs 40 plus GST. As per the new charges on Deposits and Withdrawals, cash deposits in savings account will be free for up to 3 transactions in a month. After that,
the account holder will be charged Rs 50 plus GST for every transaction. The maximum limit for deposit of cash at non-home branch is Rs 2 lakh per day. Thereafter, the non-home branch manager gets to decide if the bank can accept more cash. Meanwhile, account holders with an average monthly balance of Rs 25,000 can perform free cash withdrawal twice a month. Those with average monthly balances between Rs 25,000 to Rs 50,000 can avail 10 free cash withdrawals. Charges for transactions beyond the free limit are Rs 50 plus GST. For above Rs 50,000 up to 1,00,000, the charges are Rs 15 plus GST, while those above Rs 1,00,000 have unlimited transactions.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-revises-service-charges-for-deposits-and-withdrawals-from-october-1/articleshow/71096836.cms

Dated: Sep 12, 2019

• Bank Unions Threaten 2-Day Strike Later This Month:

Four bank employee unions have given a call for a two-day strike from the midnight of September 25 and an indefinite stir from the second week of November to protest against the mega-merger of 10 nationalized banks, a union leader said on Thursday. The unions are also pressing for expeditious wage revision, the introduction of the five-day week and other demands. The strike call has been given by All India Bank Officer's Confederation (AIBOC), All India Bank Officer's Association (AIBOA), Indian National Bank Officer's Congress (INBOC) and National Organization of Bank Officers (NOBO), the general secretary of AIBOC (Chandigarh), Deepal Kumar Sharma, said here. Nationalized banks across the country will observe strike from midnight of September 25 to midnight of September 27 to protest merger and amalgamation in the banking sector by the central government and other demands of employees, Sharma said. He said that the nationalized banks will further observe indefinite strike from the second week of November. The bank employee unions are demanding expeditious wage revision, immediate introduction of five day week, halting of undue interference in the existing procedure of vigilance cases by outside agencies, settlement of issues pertaining to retirees, adequate recruitment, scrapping of NPS, reduction of service charges for consumers and harassing of officers under specious plea of non-performance, he said. In the biggest consolidation exercise in the banking space, the government on August 30 announced four major mergers of PSBs, bringing down their total number to 12 from 19 in 2017, a move aimed at making state-owned lenders the global-sized banks. According to the consolidation exercise, United Bank of India and Oriental Bank of Commerce are to be merged with Punjab National Bank, making the proposed entity the second largest public sector bank (PSB). Syndicate Bank is to be merged with Canara Bank. Allahabad Bank will be merged with Indian Bank. Andhra Bank will be amalgamated with Corporation Bank and Union Bank of India. India has seen a merger of six associate banks along with SBI and the Bharatiya Mahila Bank with the country's largest lender in the financial year beginning April 2017. Following next year, Vijaya Bank and Dena Bank were merged with Bank of Baroda.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/bank-unions-threaten-2-day-strike-later-this-month/articleshow/71097824.cms

Dated: Sep 12, 2019
• **BoB Seeks To Sell Dena Bank Headquarters In Bandra For Over Rs 530 Cr:**

State-run Bank of Baroda has put on block the erstwhile headquarters of Dena Bank in the financial capital at a reserve price of Rs 530 crore. Dena Bank and Vijaya Bank got amalgamated with Bank of Baroda in April, this year. The property situated in the tony Bandra Kurla Complex central business district has a land area of 2,878.36 sqm with a built-up area of 9,953.73 sqm.” Bank of Baroda invites bids for sale-cum-auction of Dena Corporate Centre in BKC through an e-auction,” according to an offer document published in newspapers Thursday. The auction will be held on October 18.However the banks said the movable furniture and other fixtures in the property are not be part of the auction. Bank of Baroda managing director PS Jayakumar had earlier said the three banks have presence in about 1,000 urban centres and that it would be relocating some of those branches to areas where it does not have presence.In rural areas, however, the overlaps of branches are extremely thin, he had said earlier. In May, a senior BoB official had said the bank would be rationalising 800-900 branches across the country to improve operational efficiency, following the merger. The merger made BoB the third largest bank after State Bank of India and HDFC Bank.

*Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/bob-seeks-to-sell-dena-bank-headquarters-in-bandra-for-over-rs-530-cr/articleshow/71098082.cms*

*Dated: Sep 12, 2019*

• **Finance Secretary To Meet Heads Of PSU Banks On September 19:**

Finance Secretary Rajiv Kumar is scheduled to meet heads of public sector banks on September 19 to review progress made by them to help boost growth, including follow up action after reduction of interest rates by RBI, sources said on Thursday. The meeting comes against the backdrop of Finance Minister Nirmala Sitharaman announcing various measures to push economic growth. The agenda of the review meeting includes follow up action with respect to RBI rate cuts, and collaboration between banks and NBFCs for co-origination of loans to boost lending, the sources said. Besides, the meeting would assess introduction of repo-linked loans for attracting new borrowers to push consumption and partial credit guarantee scheme for NBFCs, among others. Economic growth has a hit six-year low of 5 per cent in the first quarter of the current fiscal. The sources said the progress made by banks towards consolidation would also be discussed at the meeting. On August 30, the government announced consolidation of 10 large public sector banks into four. As part of exercise, Punjab National Bank, Oriental Bank of Commerce and United Bank of India would combine to form the nation’s second-largest lender. Canara Bank and Syndicate Bank would be merged while Union Bank of India would be amalgamated with Andhra Bank and Corporation Bank. Indian Bank would be merged with Allahabad Bank. Earlier this year, Bank of Baroda merged Vijaya Bank and Dena Bank with itself. State Bank of India had merged five of its associate banks -- State Bank of Patiala, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Travancore and State Bank of Hyderabad -- and also Bhartiya Mahila Bank, effective April 2017.

*Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/finance-secretary-to-meet-heads-of-psu-banks-on-september-19/articleshow/71102169.cms*

*Dated: Sep 12, 2019*
Bank Credit Growth Slows To 10.24%, Deposits At 9.73%:

Bank credit and deposits growth slowed to 10.24 percent and 9.73 percent to Rs 96.80 lakh crore and Rs 127.80 lakh crore, respectively, in the fortnight to August 30, show the latest RBI data. In the year-ago fortnight, advances were at Rs 87.80 lakh crore while deposits stood at Rs 116.46 lakh crore. In the previous fortnight to August 16, advances grew 11.64 percent to Rs 96.82 lakh crore and deposits by 10.15 percent to Rs 126.80 lakh crore. In July, the non-food bank credit rose 11.4 percent on year-on-year basis from 10.6 percent in July 2018. Advances to the services sector decelerated to 15.2 percent in the month from 23 percent in the year-ago month. Credit to agriculture & allied activities rose 6.8 percent compared with an increase of 6.6 percent in the same month last year. Loans to industry rose 6.1 percent in July from 0.3 percent a year ago. Personal loans rose 17 percent in July compared to an increase of 16.7 percent in July 2018.


Dated: Sep 12, 2019

Indian Bank Board To Meet On September 18 To Consider Merger:

The Board of Directors of the Indian Bank will meet on September 18 to consider the amalgamation of Allahabad Bank with itself, Executive Director M.K. Bhattacharya said here on Friday. The Board will also consider additional capital infusion by the government by way of preferential issue of shares subject to regulatory approvals, he added. “Our Board of Directors will be meeting on September 18 to consider amalgamation of the Allahabad Bank with the Indian Bank. Prior to the merger, there are several steps like the appointment of a consultant, valuation of the bank to arrive at the share swap ratio,” Bhattacharya told reporters on the sidelines of a function to launch its digital customer loyalty reward points scheme. According to a regulatory filing by the Allahabad Bank, its Board of Directors would be meeting on September 16 to consider amalgamation with the Indian Bank. Earlier launching the ‘Ind Advantage’, the customer loyalty reward points scheme, Bhattacharya said the bank has come out with this scheme to stay competitive in the market. He said the scheme will be for customers using its debit cards, mobile and net banking facilities. The customers can redeem the rewards points at various retail outlets. Queried about the future of the scheme with the merger of the Allahabad Bank being planned, Bhattacharya said the better of the two reward schemes will prevail if the Allahabad Bank has such a scheme for its customers. He said Indian Bank has a total of 4.25 crore accounts and of which 3.50 crore are active. Bhattacharya said initially the scheme will be for its debit card customers and later, will be extended to credit card customers as well. According to him, the cost for banks goes down drastically in the case of digital transactions and the cost saving is being shared with the customers given the competition also has similar schemes. Bhattacharya said the bank hopes to attract new customers per month with this rewards redemption scheme. Indian Bank has tied up with Loylty Rewardz Mngt Pvt Ltd for the rewards scheme. Meanwhile, the Indian Bank, in a regulatory filing on Friday, said S&P Global Ratings has revised its issuer credit rating from BBB-/Stable/A-3 to BBB-/Negative/A-3.
• RBI Proposes Rs 200 Crore Minimum Capital For Small Banks Under ‘On Tap’ License Regime:

The Reserve Bank of India (RBI) on Friday proposed a minimum equity capital of Rs 200 crore to set up a small finance bank (SFB) under the ‘on tap’ licence regime to expand the banking services through high technology-low cost operations. Releasing the draft guidelines for ‘on tap’ licensing of SFBs in the private sector, the RBI said existing non-banking financial companies (NBFCs), micro finance institutions and local area banks in the private sector, which are controlled by residents, can opt for conversion into small finance banks. It further said proposals from public sector entities and large industrial house/business groups, and autonomous boards/bodies will not be entertained. A small finance bank is primarily set up to undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections, including small business units, small and marginal farmers, micro and small industries and unorganised sector entities. The objectives of setting up of SBFs is to further financial inclusion and supply of credit “through high technology-low cost operations”, the draft said. “The minimum paid-up voting equity capital for small finance banks shall be Rs 200 crore, except for such small finance banks which are converted from UCBs...,” said the draft on which the central bank has sought comments from the stakeholders by October 12. Further, in view of the inherent risk of an SFB, it shall be required to maintain a minimum capital adequacy ratio of 15 per cent of its risk weighted assets (RWA) on a continuous basis. The draft further said the promoters should hold a minimum of 40 per cent of the paid-up voting equity capital of the bank, which would remain locked in for five years from the date of commencement of the bank’s business. “Proposals having diversified shareholding, subject to the initial minimum shareholding of promoters, and a time frame for listing of the bank will be preferred,” it said. However, after the SFB reaches the net worth of Rs 500 crore, listing will be mandatory within three years of reaching that net worth. Also, SFBs having net worth of below Rs 500 crore could also get their shares listed voluntarily, subject to fulfilment of the requirements of the capital markets regulator. The foreign shareholding in the small finance bank would be as per the extant foreign direct investment (FDI) policy for private sector banks. The RBI had issued the guidelines for licensing of SFBs in the private sector in November 2014. The process of licensing culminated in granting in-principle approval to 10 applicants and they have since established the banks. It was notified in these guidelines that after gaining experience in dealing with these banks, the Reserve Bank will consider ‘on tap’ licensing of these banks.

• Andhra Bank Board Okays Merger With Union Bank Of India:

The board of directors of Andhra Bank on Friday accorded in-principle approval for the amalgamation of Andhra Bank and Corporation Bank with Union Bank of India.
as the anchor bank. “In continuation to our letter dated September 11, 2019 regarding intimation of meeting of board of directors of the bank, we wish to inform you that the board in its meeting held on September 13, 2019 has considered and accorded its in-principle approval for the amalgamation of Andhra Bank and Corporation Bank with Union Bank of India as the anchor bank, subject to statutory and regulatory approvals,” the public sector bank said in a filing on the BSE. Finance Minister Nirmala Sitharaman recently announced the merger of Oriental Bank of Commerce and United Bank with Punjab National Bank, Syndicate Bank with Canara Bank, while Andhra Bank and Corporation Bank would merged with Union Bank of India. Besides, Indian Bank would be merged with Allahabad Bank, making it the seventh largest state-owned bank.


Dated: Sep 13, 2019

• **Altico Default Sends Mutual Funds, Banks Scurrying For Cover:**

Banks and mutual funds scrambled on Thursday to contain the fallout of the default by Altico Capital, with investor attention turning to Non-Banking Finance Companies’ liquidity problems on the eve of the first anniversary of IL&FS’ bankruptcy. On Friday, ratings agency India Ratings & Research cut Altico’s creditworthiness to ‘D’, or ‘default’ category, from A+ earlier. Care, another ratings agency, downgraded the finance company’s debt to below investment grade. Meanwhile, mutual funds such as UTI and Reliance Nippon AMC rushed to ring fence the value of their debt schemes by segregating, or ‘sidepocketing’, Altico’s securities. “The revision takes into account Altico’s significant exposure to real estate sector which is witnessing a slowdown and experiencing heightened refinancing risk which is reflected to an extent with moderation in asset quality of the company,” Care said in a statement. Shares of banks and Non-Banking Finance Companies (NBFCs) ended mixed on Friday as some investors fretted about a possible repeat of last year’s scare and subsequent market meltdown caused by the default and eventual bankruptcy of IL&FS. The default in the last week of September 2018 had triggered a market crisis and brief credit shutdown to over-leveraged finance firms and their clients. Many NBFCs are yet to recover from the 2018 crisis, and investors are still nervous about the poor liquidity condition of many small players. On Friday, mutual funds were quick to take advantage of ‘side pocketing’ rules put out by the SEBI after the IL&FS crisis, which allow funds to segregate illiquid securities from defaulting companies till the fund houses are able to realize some value from these papers. The process creates two schemes one that contains the illiquid paper and the other holding the good ones. As and when fund houses are able to recover money from Altico Capital, it will be distributed to investors in proportion to their holdings in the segregated portfolio. UTI Credit Risk Fund, with assets of Rs 3,536 crore, has an exposure of Rs 202.82 crore to Altico papers (5.85% of Assets Under Management). Reliance Ultra Short Duration Fund, with assets of Rs 3,258 crore, has an exposure of Rs 150 crore (4.61% of Assets Under Management). In a note, UTI Mutual Fund said existing investors shall be allotted the same number of units in the segregated portfolio of the scheme as in the main portfolio. “No subscription and redemption
will be allowed in the segregated portfolio. The AMC will disclose separate NAV of segregated portfolio and enable transfer of such units on receipt of transfer requests,” it said. Reliance Nippon AMC said it will suspend all subscriptions in the affected fund from September 13 till further notice. The fund house said it had informed investors about the segregated portfolio in the scheme and given them time till September 24 to redeem units. The AMC said it will create a segregated portfolio on September 25. Top Indian lenders including HDFC Bank, State Bank of India Yes Bank and UAE-based Mashreq Bank had provided a six-year, Rs 340-crore loan to Altico. On Thursday, the finance company failed to pay Rs 20 crore that was due as interest. The NBFC’s total debt amounts to about Rs 4,000 crore. Mashreq Bank has the highest exposure to Altico with Rs 660 crore of outstanding term loans, including external commercial borrowings. Among Indian lenders, HDFC Bank has the maximum exposure at Rs 500 crore, followed by Yes Bank at Rs 450 crore and SBI at Rs 400 crore, according to a report by India Ratings. Spokespersons from HDFC Bank, Mashreq Bank, Yes Bank and SBI did not reply to emails seeking comment. However, officials of these banks said on the condition of anonymity that their exposure was relatively small and manageable. “Our exposure is peanuts compared to our Rs 12 Lakh Crore loan book. It is half of what has been projected in the India Ratings report. I do not think this account poses any serious risk to us since we have enough securities covering the loan,” said a senior official from HDFC Bank. A senior SBI official too said his bank’s exposure was negligible. “I don’t think we have such an exposure and even if true, it is too small to impact us. It looks like a case of cash flow mismatch that can be resolved,” he added. Some analysts, however, said the incident has heightened risks of contagion in the debt-laden NBFC sector. “If a company with such marquee investors faces liquidity stress, then it raises concerns for others. Banks will be reluctant to lend to these companies, which could worsen the liquidity squeeze,” said Nitin Aggarwal, an analyst at Motilal Oswal.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/altico-default-sends-mfs-banks-scurrying-for-cover/articleshow/71120765.cms
Dated: Sep 14, 2019

**IT And HR Synergy Are Key Challenges For PNB-OBC-UBI Merger:**

Integration of technology platform will remain the key challenge for the merger of Punjab National Bank, Oriental Bank of Commerce and United Bank of India, senior executives of these banks said, even as the government has selected the merger partners on the basis of their IT compatibilities rather than geographical synergy. Harmonizing human resource issues will be another key aspect of these mergers, as was seen in the past. “Asymmetrical entities are coming together, so there is bound to be some challenges” Ashok Kumar Pradhan, chief executive of UBI said Saturday, at an interactive meeting between the three banks and their customers held in Kolkata. PNB, OBC and UBI use Infosys’ Financle software for their core banking solutions,
while Allahabad Bank and Indian Bank are on TCS' BaNCS software, prompting the government to stitch these alliances for a smoother transition. Similarly, Canara Bank and Syndicate Bank are on the same iFlex platform. Union Bank of India, Andhra Bank and Corporation Bank are again on the Finance platform. UBI and OBC use Finance-7 while PNB uses Financle-10. So, UBI and OBC need to upgrade their software solutions to have a seamless integration. On the HR issues, Pradhan said that best available benefits from three banks will be passed on to employees. “There will not be any retrenchment or voluntary retirement scheme,” he said. These banks have formed as many as 23 committees covering every aspect of banking merger such as IT, HR, product offerings etc. to make the exercise less painful. Chief executives of all the 10 public sector banks, which are selected as merger candidates, had a meeting at Bank of Baroda headquarters in Mumbai on September 4 to get a lowdown on merger experiences. “Bank of Baroda has given us a template on merger and the likely challenges in this exercise. It was a great learning,” UBI’s Pradhan said. PNB board has already approved the merger while the UBI and OBC will consider it at their respective board meetings both scheduled on September 18. The merger is expected to take shape from April 1, 2020. Consequent upon this, the merged entity will become the convener of state level bankers’ committee in the states of Haryana, Punjab, Tripura and West Bengal, and union territories of Delhi and Chandigarh.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/it-and-hr-synergy-are-key-challenges-for-pnb-obc-ubi-merger/articleshow/71127815.cms

Dated: Sep 14, 2019

• **SBI To Move RBI To Offer Fixed-Floating Rate Home-Loans, Chairman Shri Rajnish Kumar:**

The largest lender State Bank of India will be seeking clarifications from the Reserve Bank whether it can offer long-term home loans with fixed rates in the beginning and convert the same into floating rates later, chairman Rajnish Kumar has said. The move comes after the Reserve Bank has mandated banks to shift all retail lending to floating rates that will be determined by external benchmarks like the repo rate. Kumar said there is a lack of clarity on how it can go ahead with the fixed rate products, after the RBI’s new regulations on floating rates. Hinting at the volatility in the repo rate, he said some home buyers may want their loan rates to be fixed. For such buyers, it can offer a ‘fixed-floating’ product, wherein the rates are locked in for an initial period of say five to ten years, and then turns floating. The need for making the product floating in the latter part arises out of the bank’s inability to project the liability movements in the future, he said, adding typically, home loans are for about 30 years. It can be noted that the repo rate at which the central bank lends to the system is at a nine-year low of 5.40 per cent. Speaking to reporters here over the weekend, Kumar said the central bank's recent guidelines on floating rate products for the retail segment has necessitated the need for the clarity. Kumar has clarified that from an asset liability management perspective, it is difficult to have a fixed rate product for a long term like 30 years, the maximum tenor of a home loan now from the bank now. Some private sector peers offer up to 35 years of home loans depending on in the age of the borrower, though. At present, SBI has a floating rate home loan product linked to its marginal cost of funds-based lending rate.
and it recently withdrew one linked to the repo rate. It does not have a fixed rate home loan product at present. As of now, under the marginal cost of funds based lending, floating rate loans are re-set as when the interest rates fall or rise, but fixed rate loans are reset in 9-12 months. But when the loans are linked to the repo rate, the rates can change sharply, depending on how RBI acts on the rate front. Many mortgage borrowers normally choose fixed rates, as that helps them better manage their finances because of the certainty about the EMI outgoes.

Kumar said the bank does not have adequate liabilities linked to the floating rate which makes such a floating product difficult. Speaking on the RBI-mandated systemic shift to external benchmarked lending rates, he said SBI will have minimal issues with the same. He said the industry leader was the first to move on to the repo-linked loans and deposits since May, and has many of its products aligned to the external benchmarks now. However, he said such shifts make asset liability management “challenging” as there lack of floating rate liabilities now. About the impact of the mega bank mergers on SBI, he said it will not impact the nation’s largest bank as SBI has specified business model and target segments, and will continue with the same.


Dated: Sep 15, 2019

**Tech, HR Integration Remain Key Challenges For PSU Bank Mergers:**

Integration of technology platforms will remain the key challenge for the merger of Punjab National Bank, Oriental Bank of Commerce and United Bank of India, senior executives at these banks said, even as the government has selected the merger partners on the basis of their IT compatibilities instead of geographic reach. Harmonising human resource issues will be another key aspect of these mergers, as was seen in the past. “Asymmetrical entities are coming together, so there is bound to be some challenges,” Ashok Kumar Pradhan, chief executive of UBI, said in Kolkata on Saturday at an interactive meeting involving the three banks and customers. PNB, OBC and UBI use Infosys’ Financle software for their core banking solutions, while Allahabad Bank and Indian Bank are on TCS’ BaNCS software, prompting the government to stitch these alliances for a smoother transition. Similarly, Canara Bank and Syndicate Bank are on the same iFlex platform. Union Bank of India, Andhra Bank and Corporation Bank are again on the Finance platform. UBI and OBC use Finance-7 while PNB uses Financle-10. So, UBI and OBC need to upgrade their software solutions to have a seamless integration. On the HR issues, Pradhan said that the best available benefits from the three banks will be passed on to employees. “There will not be any retrenchment or voluntary retirement scheme,” he said. These banks have formed 23 committees covering every aspect of the merger, such as IT, HR, and product offerings, to ensure success of the exercise. Chief executives of all the 10 public sector banks, which are selected as merger candidates, had a meeting at the Bank of Baroda headquarters in Mumbai on September 4 to get a lowdown on the merger experience. “Bank of Baroda has given us a template on the merger and the likely challenges in this exercise. It was a great learning,” UBI’s Pradhan said. PNB board has already approved the merger while the UBI and OBC will consider it at their respective board meetings – both scheduled...
for September 18. The merger is expected to take shape from April 1, 2020. The merged entity will become the convenor of state level bankers' committee in the states of Haryana, Punjab, Tripura and West Bengal, and union territories of Delhi and Chandigarh.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/tech-hr-integration-remain-key-challenges-for-psu-bank-mergers/articleshow/71142846.cms
Dated: Sep 16, 2019

• **SBI Chief Slams ‘Selfish’ Private Sector Bank For Altico Crisis:**

State Bank of India chairman Rajnish Kumar has slammed a “selfish” private sector lender for the crisis at Altico Capital, as its unilateral move to secure its own money can potentially cause trouble to the wider financial system. The reality-focused non-banking lender Altico, which owes over Rs 4,500 crore to the system (mostly banks), defaulted on a nearly Rs 20 crore interest payment late last week on an external commercial borrowing (ECB) loan. The default by Altico has resulted in concerns over the wider implications. According to reports, a leading private sector bank allegedly moved in to secure its exposure by “netting-off” money from a fixed deposit maintained by Altico. “If any bank makes a selfish move, it can have a negative impact on the rest of the system,” State Bank of India (SBI) chairman Rajnish Kumar told reporters here over the weekend. “You have taken care of the Rs 50-100 crore (exposure), and felt happy for saving your money, but if you are damaging the system, then it is not proper,” Kumar said, without naming the private sector lender. “Even in the case of the biggest of the companies, if a bank pulls the trigger or stops credit flow, the negative impact can come,” he added. The need is for bankers to mount coordinated efforts which help the entire financial system, he said, pointing out that the same is being used for biggest of the stressed cases. The comments from the SBI chairman come days ahead of a bankers’ meeting to find a solution. Altico owes Rs 660 crore to the UAE-based Mashreq Bank, Rs 400 crore to SBI, and Rs 200 crore to UTI MF and Rs 150 crore to Reliance Nippon, as per India Ratings estimates. Altico has defaulted on interest payment of Rs 19.97 crore to Mashreq Bank last week. On September 3, it was downgraded to junk status by rating agencies India Ratings and Care Ratings. Altico is backed by marquee investors like Clearwater Capital Partners, Abu Dhabi Investment Council and Varde Partners. The default was on the troubled company's ECB loan, but was not reportedly allowed by the Reserve Bank of India to be used for interest repayments, leading to the default. As per they central bank’s norms, ECBs by lenders can only be used for on-lending. According to reports, the ECB money was kept with the private sector lender as a fixed deposit and it moved in swiftly to secure its loans on the news of its default.

Dated: Sep 16, 2019

• **RBI Allows Payment Of All Recurring Bills Through BBPS:**

In a consumer friendly initiative, the RBI on Monday expanded the scope of Bharat Bill Payment System (BBPS) to cover all repetitive bill payments, which may include school fees, insurance premiums and municipal taxes. Currently, the facility of payment of recurring bills through BBPS is available only in five segments — direct to
home (DTH), electricity, gas, telecom and water. “...it has been decided to expand the scope and coverage of BBPS to include all categories of billers who raise recurring bills (except prepaid recharges) as eligible participants, on a voluntary basis,” the RBI said in a circular. BBPS functions under the aegis of National Payments Corporation of India (NPCI). As per BBPS website, the facility would be expanded to include other types of repetitive payments like insurance premium, mutual funds, school fees, EMIs, and municipal taxes, among others. Commenting on RBI’s decision, DGM of Taxmann Rachit Sharma said expansion of biller categories would increase the user base of Bharat Bill Pay along with providing an efficient, cost-effective alternative to the existing systems and enhance consumer confidence and experience. BBPS is an integrated bill payment system which offers interoperable bill payment service to customers online as well as through a network of agents on the ground. The system will provide multiple payment modes and instant confirmation of payment.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-allows-payment-of-all-recurring-bills-through-bbps/articleshow/71154949.cms
Dated: Sep 16, 2019

• Boards Of Corporation Bank, Allahabad Bank Give In-Principal Approval For Respective Merger Plans:

Corporation Bank on Monday said the board has given its in-principle approval for the merger with Union Bank of India. “The board of directors in its meeting held on September 16, 2019 has given in-principle approval for the amalgamation of the Corporation Bank into Union Bank of India,” it said in a regulatory filing. Earlier on September 9, Union Bank of India had informed about an in-principle approval of its board for the amalgamation of Andhra Bank and Corporation Bank into it. While, Andhra Bank board on September 13 had given its in-principle approval for the amalgamation of the lender alongside Corporation Bank into Union Bank of India.

In a separate filing, Allahabad Bank said that “board of directors of the bank in its meeting held on September 16, 2019 has considered and accorded its in-principle approval for amalgamation of Allahabad Bank into Indian Bank. The union government in late August had approved to merge 10 state-run banks into four entities with an aim to strengthen them as also to cut down number of publicly hold banks into of the global sized banks. Among the other amalgamation proposals, Punjab National Bank is to merge Oriental Bank of Commerce and United Bank of India with itself. And the south based Canara Bank will merge its regional peer Syndicate Bank with itself. With these merger proposals, the number of state owned banks in India is slated to come down to 12 from 19 earlier. Until 2017, there were as many as 27 banks under the ownership of government. In April 2017, country’s largest lender amalgamated its six associate banks and the Bharatiya Mahila Bank with itself. Another merger followed immediately next fiscal with the merger of Dena Bank and Vijaya Bank into Bank of Baroda.

Dated: Sep 16, 2019

• Strike Call Given By Officers’ Union May Affect Normal Business At Branches:
The State Bank of India (SBI) on Monday said the operations of the bank could be affected if the two-day strike call given by officers’ unions materialises. Four unions of officers of public sector banks have threatened to go on a two-day strike from September 26 to protest against the announced consolidation of 10 state-run lenders into four. “While bank has made all arrangements to ensure normal functioning in its branches and offices, it is likely that work in our bank may be impacted to some extent by the strike,” SBI said in a regulatory filing. The bank has been advised by Indian Banks’ Association (IBA) that the All India Bank Officers’ Confederation (AIBOC), All India Bank Officers’ Association (AIBOA), Indian National Bank Officers’ Congress (INBOC) and National Organization of Bank Officers (NOBO) has given a call for all India strike by bank employees on September 26 and 27, 2019. In the biggest consolidation exercise in the banking space, the government on August 30 announced four major mergers of PSBs, bringing down their total number to 12 from 19 in 2017, a move aimed at making state-owned lenders global-sized banks. According to the consolidation exercise, United Bank of India and Oriental Bank of Commerce are to be merged with Punjab National Bank, making the proposed entity the second largest public sector bank (PSB). Syndicate Bank is to be merged with Canara Bank, while Allahabad Bank will be merged with Indian Bank. Andhra Bank and Corporation Bank will amalgamate with the Union Bank of India. Earlier this year, Bank of Baroda merged Vijaya Bank and Dena Bank with itself to become the second largest public sector lender. SBI had merged five of its associate banks - State Bank of Patiala, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Travancore and State Bank of Hyderabad and also Bhartiya Mahila effective April 2017.


Dated: Sep 16, 2019

- **Jet Airways Lenders Make Presentation To Synergy Group:**

The lenders to the bankrupt Jet Airways Monday made a presentation to the South American conglomerate Synergy Group, which has reportedly emerged as sole potential buyer of the airline, according to a source. After the August 10 deadline, Synergy Group Corp, which owns majority stake in Colombian carrier Avianca Holdings, had reportedly evinced interest in the airline, which had already received expressions of interest (EoIs) (which were subsequently withdrawn) from energy baron Anil Agarwal’s family trust-backed Volcan Investments, Russian Fund Treasury RA Partners and the Panama-based Avantulo Group. “The lenders of Jet Airways Monday made a presentation to the Synergy Group, which is likely to invest in the carrier. They shared information about the airline’s assets, manpower, liabilities, among others,” a source told PTI. The source also said the exercise is expected to stretch to Tuesday. When contacted, Antonio Guizzetti, the president of the Washington-based Guizzetti & Associates, which is the legal adviser to the Synergy Group, said he was not aware of the developments. The airline owes over Rs 8,500 crore, excluding interest, and other penal charges, to a clutch of lenders led by the State Bank. The lenders consortium, which owns 51 percent, had on June 17 sent the airline to the NCLT as they could not find a buyer. Following this, the bankruptcy tribunal appointed Ashish Chhawchharia of Grant Thornton as the resolution professional to manage the affairs of the
crippled airline. The RP had in late July floated EoIs for the airline with the first deadline of August 3 which was extended to August 10 and another EoI with August 31 deadline. Naresh Goyal, who is under ED probe for alleged money laundering charges, founded Jet Airways over 25 year ago and it stopped flying on April 17. In the second round of submission of EoIs, which closed on August 10, the lenders had received interest from Volcan Investments, RA Partners and Avantulo Group. However, Volcan opted out of the race a day after publicly announcing its interest in the carrier. It can be noted Etihad Airways, which owns 24 percent stake in Jet, did not submit its bids. Jet Airways has liabilities over Rs 36,000 crore, including over Rs 10,000 crore in vendor dues, Rs 8,500 crore along with interest owed to lenders, over Rs 3,000 crore in salary dues, and more than Rs 13,500 crore in accumulated losses over the past three years. Early July the RP had received claims worth over Rs 26,500 crore as of July 4, including over Rs 200 crore from founder Naresh Goyal, submitted by the holding company of the airline JetAir, but was rejected.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/jet-airways-lenders-make-presentation-to-synergy-group/articleshow/71155486.cms

Dated: Sep 16, 2019

- **After Charges Of Wrongdoing at HFC, Exit Of Bank CEO, RBI Raises Scrutiny On LVB And Indiabulls HF:**

The Reserve Bank of India (RBI) has intensified its “fit and proper” checks on the managements of Lakshmi Vilas Bank (LVB) and Indiabulls Housing Finance (IHF), which plan to merge, following fresh accusations of wrongdoing and the sudden exit of the bank’s CEO. It has also told the companies not to exchange information and barred management interaction pending approval, two people familiar with the matter said. The heightened scrutiny follows a public interest litigation (PIL) in the Delhi High Court seeking a special investigation into alleged irregularities, diversion of funds and other violations said to have been committed by the promoters of IHF. The PIL filed by NGO Citizens Whistle Blower Forum alleges that the Indiabulls promoters have been advancing dubious loans to companies owned by large corporate groups. The latter route a part of these funds back to the accounts of companies owned by the promoters of Indiabulls. Indiabulls has described the PIL as “malicious” and “malafide” with the intention of scuttling the planned merger. Senior advocate Mukul Rohatgi, appearing for Indiabulls, said at a hearing last week that the petition had been copied from an earlier plea filed by one Abhay Yadav in the Supreme Court. That had subsequently been withdrawn and the facts stated in it were also said to be wrong with Yadav issuing an apology. The next hearing in the current case will be held on September 27. “This PIL is now sub judice, so it is only fair that it is decided by the court,” said one of the people cited earlier. “The RBI is hence in no hurry to make a decision on this case.” “There are also enquiries being done by agencies like the Enforcement Directorate and income tax, which the RBI will access. Only after they receive all this information will a considered decision be made,” the person said. An RBI spokesperson didn’t respond to queries and neither did Indiabulls. The two sides announced that LVB will be acquired by IHF subject to regulatory approval on April 5. LVB shareholders were to get 0.14 equity share of the merged company for each held in the bank. However, on May 4, the contours of the deal changed. The two companies said that IHF and its subsidiary
Indiabulls Commercial Credit Ltd (ICC) will be merged into Lakshmi Vilas Bank. Just after the deal was announced in April, in an unprecedented clarification on its website, the RBI said that the presence of additional directors nominated by it on the LVB board didn’t imply central bank approval of the merger proposal. LVB CEO P Mukherjee, who has been at the helm of the bank since 2015, quit late last month citing personal reasons. He hadn’t completed a year of the two-year extension the RBI gave him in January 2019. Both entities had sent five nominations for the board of the merged entity. They include Indiabulls chairman Sameer Gehlaut, vice chairman Gagan Banga and executive director Ajit Mittal. From the LVB side, the names include KR Pradeep, who is the largest shareholder in the promoter group of the bank with a 2.01% stake, and P Mukherjee, who has since resigned. The deal has got the approval of CCI but the National Housing Bank and the RBI are yet to take a call. “We have no new information from the RBI. Whatever we have got is in the public domain,” said LVB CFO S Sundar. “As part of the diligence process, there are regular RBI, NHB inspections and RBI’s inspection is likely to end by the end of next week,” said one person close to Indiabulls. “RBI has looked into the credentials of incoming promoters between May and July. RBI will now look at the resultant capital position, asset classes and final business plan. It will take four months after issuing in-principle license to the final one.” Another person close to LVB said that the RBI is likely to scrutinize names recommended for chairman and MD of the merged entity more closely.

Dated: Sep 17, 2019

• **Indian Overseas Bank to offer repo-linked loans from October 1:**

Indian Overseas Bank on Tuesday said it will offer consumer loans linked with RBI’s repo rate from October. The bank has decided to offer Repo Linked Lending Rate (RLLR) for new loans sanctioned under retail segment –housing, vehicle, education and clean loans– and MSMEs from October 1, it said in a release. The Reserve Bank through a notification in early September had advised banks to link all new floating rate for personal or retail loans and MSMEs to one of the external benchmarks. These benchmarks are repo rate, 3/6 months treasury bills yields or any other benchmark published by Financial Benchmarks Pvt Ltd. “Out of the above three benchmarks, IOB has now decided to link interest rates with repo rate for these segment loans and the details of rates will be published with effect from...
October 1, 2019,” said the Chennai-based lender.


Dated: Sep 17, 2019

• **Bank’s Race Against Crisis Puts India On Warning:**

India's fragile financial system is swinging between despair and hope. Two separate incidents both featuring the lender Yes Bank Ltd. recently underscored the drag of past underwriting follies as well as the lift from a digital reset. It will take time, but good things will come to Indian banking as a result of the present crisis. Start with the sudden default by financier Altico Capital India Ltd. on a 199.7-million-rupee ($2.8-million) interest payment to Abu Dhabi-based Mashreqbank PSC. Clearwater Capital Partners-backed Altico, which borrows money from banks and mutual funds to make loans to property developers, called the situation a “liquidity crisis.” And that made Yes Bank investors gloomy. Based on January data, the midsize Indian bank had a 4.5-billion-rupee exposure to Altico, the third-highest after Mashreq and HDFC Bank Ltd. While HDFC Bank, the country's most valuable lender, has the capital and current profit to take the occasional credit hit, Yes's capital cushion is already frayed by dodgy loans to beleaguered shadow banks and troubled tycoons. Both these borrower groups have found it hard to refinance debt since the collapse last year of IL&FS Group, a large Indian infrastructure financier and operator. Altico's unraveling shows that an end to credit woes is not yet in sight. At more than $200 billion, India's world-beating pile of bad loans is bigger than Italy's. State-run Indian banks are carrying the bulk of the burden, but at least they're getting dollops of taxpayers' money and being merged into fewer banking groups. A private-sector lender like Yes doesn't have a formal public backstop. If it can't fend for itself, the central bank could step in and force an arranged match with a better-run bank. The terms won't be favorable to Yes shareholders. To avoid such a fate, Yes needs to raise growth capital by convincing new investors that the worst is over. And that brings us to the week's other big incident. Yes shares jumped 13.5% after reports that One97 Communications Ltd., which owns the Indian digital payments network Paytm, may buy out a 9.6% stake in Yes from Rana Kapoor, the lender's co-founder. Kapoor was forced to step down as CEO early this year by the Reserve Bank of India amid a controversy over bad-debt accounting. New CEO Ravneet Gill, brought in to clean up the mess, told Reuters last week that Yes was looking to sell a minority stake to "one of the world's top three technology companies that had not previously invested in a bank.” Investors pushed the stock higher despite their many misgivings. Only two years ago, Yes had a high price-to-book multiple and an even bigger price-to-truth ratio, a term I'd coined to describe shareholders' refusal to question the subterfuge at India's private-sector banks. Although the banking regulator had found bad loans to be four times what Yes had disclosed in audited results, very few analysts believed something could go seriously wrong given Kapoor's substantial stake — his skin in the game. That was then. Now, Yes is a battered lender gasping for capital. Despite the many regulatory hurdles on the way to a possible alignment with Paytm, which the latter hasn't confirmed, a deal could help the bank break free of its checkered past — and reemerge as a digital lender. If Paytm can monetize the data of its
350 million mobile wallet users by giving them point-of-sale loans using the balance sheet of a bank — whether Yes or someone else — the payment firm will get a second wind. Paytm founder Vijay Shekhar Sharma had an early advantage as India’s mobile payments pioneer, but Walmart Inc.-owned PhonePe as well as Alphabet Inc.’s Google Pay are giving him stiff competition. Paytm’s losses are ballooning and it’s becoming evident that without old-fashioned lending, there may be no other path to profitability for a pure payments business. Mukesh Ambani, India’s richest tycoon, plans to use his rapidly growing Jio telecom network to offer customers discounts and vouchers that would be honored even by neighborhood stores. But for extending point-of-sale credit, Ambani would also need to borrow the balance sheet of a bank. For Yes, point-of-sale financing could be a growth avenue at a time when the turmoil in India’s formal and shadow banking sectors refuses to end. It’s put the brakes on what authorities were until recently claiming to be the world’s fastest-growing major economy. But alongside the despair, hope is building for a new model led by supply-chain credit, asset securitization, digital lending, and joint underwriting by finance companies (which know their borrowers) and banks (which have stable deposits). The tug of war between the past and the future of banking in India is getting interesting. What happens to Yes could be a gauge of which way the balance of power is shifting.

Dated: Sep 17, 2019

• RBI Considering Bringing Payment Aggregators And Gateways Under Direct Supervision:

The Reserve Bank of India on Tuesday released a discussion paper detailing the possibility of bringing all payment aggregators and payment gateways under its direct regulation. Such a move would make it mandatory for all these companies to adhere to regulatory compliances prescribed by RBI on minimum net worth, fit and proper criterion for board members and other entry point norms on technology, data storage and security. “The activities of Payment Gateways and Payment Aggregators in online transactions are extremely crucial,” the central bank said. “Entities may be a source of risk in such a technology and customer experience intensive business if they have inadequate governance practices which may impact customer confidence and experience.” As per the current guidelines, these companies are indirectly supervised by the Reserve Bank. Banks with which these entities have business operations are required to create a nodal account and...
scrutinise the daily settlements in these accounts. However, citing the expanding payments ecosystem, the central bank has proposed for making changes to the existing framework under which these companies are governed. “The customer, ordinarily has very limited access to the Payment Gateways and Payment Aggregators and must rely on merchants or banks who only can seek redress from the Payment Aggregators. Lack of proper redress mechanism and uniformity in practice across the entities is also a matter of concern,” according to the central bank. The RBI, in the discussion paper, said that it is exploring the possibility of bringing these entities within the purview of the Payment and Settlement System Act 2007. If the regulators goes through with the proposal, these companies would be required to apply for a license within a stipulated period failing which the businesses would be asked to fold, the central bank said. The approval of license would depend on whether these companies uphold to all basic regulatory checks such as fit and proper criterion of board members, having a minimum net worth of Rs.100 crore and having basic technology capacities matching up to the regulatory prescription. “Sufficient time, of say one year, may be given to the existing market participants to achieve compliance with the required capitalisation norms,” the apex regulator said. “They shall adhere to the regulations from the date of issue of the regulations or as specified therein.” RBI said that that it has opened the discussion paper for public comments following which the final guidelines would be issued.

Dated: Sep 17, 2019

- **As Risk Around Debt Funds Rises Investors Are Returning To Bank Deposits:**

While investors get used to the risks associated with debt funds, the faith in the industry is being dented by the quick recourse to side pocketing and deals with defaulters for later payments. Transparency, liquidity and prospects of better returns prompted chartered accountant Kuntal Parikh to move a substantial portion of his savings from banks to mutual funds about five years ago. Parikh enjoyed higher returns all these years, but is now moving a portion of his savings back to traditional bank deposits. A series of defaults on borrowed sums by companies and their promoters, coupled with regulatory changes, eroded returns from mutual fund debt plans, leading investors to question whether risks outweigh the returns. As recently as last week, UTI Mutual Fund and Reliance Nippon Asset Management sliced off the holdings of Altico Capital bonds after a default and suspended normal subscriptions and redemptions. Kotak Mutual Fund and Aditya Birla Mutual Fund faced similar pressures after some companies such as the Essel Group defaulted. Debt corporate funds, which more than doubled in size in the past five years, have returned 7.08% on an average in the period, compared with 6.25% yielded now by State Bank of India’s fixed deposits. Bank FDs are taxable, while bond investors get indexation benefits if instruments held for at least three years. Crisil data showed that some mutual funds schemes from DSP, UTI, DHFL Pramerica and others have lost their entire value in the past one year, when funds wrote down the value of defaulting debt. This led earnings of many years to be eroded with just one or two defaults. “I have never thought that I would lose my principal amount in debt
investments,” said Parikh, a resident of Ahmedabad. “This (value erosion) has changed my perception of debt products. I have shifted back to fixed deposits that would earn me less, but would be safe.” What started with the collapse of Infrastructure Leasing & Financial Services (IL&FS) last year is still having ripple effects in the market. Essel Group of Subhash Chandra, Vikram Thapar’s CG Power, Dewan Housing Finance and Sintex are among prominent defaulters to have hit mutual funds so far. Events of the past year in debt mutual funds have even irked the market regulator. “The safety of investment cannot be compromised for want of higher yields,” said Ajay Tyagi, chairman of the Securities & Exchange Board of India. “While we have taken steps to restrict such investments, the industry as a whole needs to do its own analysis on a regular basis to avoid such situations in future.” After years of meagre growth since starting in the mid-90s, mutual funds had a blistering growth as they packaged the advantages of transparency and liquidity. ‘At the click of a button’ was a slogan that traveled well into individual homes and corporate treasuries looking to beat market returns. Debt mutual funds’ assets under management rose 85% in August 2019 to about Rs 13.22 lakh crore from Rs 7.13 lakh crore in August 2014. Credit schemes to liquid schemes to plain vanilla corporate bond funds flourished as savings moved into debt plans. While debt credit risk funds returned an average of 7.26% in five years, the risk was also building up with indiscriminate borrowing that led to over-leverage. A sudden economic slowdown and halting of payments over disputes led to a credit squeeze, especially for infrastructure firms. “There is a trust deficit among investors,” said Vikram Dalal, managing director at Synergee Capital, a Mumbai-based advisory firm. “Investors are not investing any fresh funds into debt funds, as some NBFCs and mortgage firms have defaulted on their principal/ interest repayment. After the IL&FS episode, rating agencies have become very alert in assigning ratings.” Companies arbitraging interest rates – borrowing short-term at lower rates and lending long for higher returns – were given the stick by mutual funds. When they declined to roll over credit, funds became scarce. The likes of DHFL and Essel group were hit. Of course, the funds bled. For example, Aditya Birla Mutual Fund invested Rs 2,220 crore in DHFL group companies as on September 30, 2018 which is worth Rs 55 lakh in August, showed data from Value Research. DSP Mutual Fund invested Rs 126.12 crore on September 30, 2018, in DHFL, which is now worth Rs 40.16 crore in July. Fund houses either marked down losses or exited investments in the secondary market. “Until about a year ago, the significant growth of the mutual fund industry was one of the most talked about success stories of capital markets in India,” said Sebi’s Tyagi. “The events last year, however, exposed the fault lines in the industry and showed that a credit event in even one issuer/group could have a contagion effect leading to liquidity risk across the market.” Investors and mutual funds were playing musical chairs. When the music stopped, they did not find an exit door in a market that was shallow and that did not have a proper valuation mechanism for these illiquid papers. “Much needs to be done on debt infrastructure, governance and accountability,” said Ananth Narayan, professor of finance at SPJIMR. “We need to increase the corporate bond repo market liquidity, increase debt secondary market volumes, improve accountability of rating companies, and strengthen credit departments of mutual
funds.” The corporate debt market has grown to Rs 30.6 lakh crore by June this year from Rs 14.4 lakh crore in 2014, RBI data showed. Of this, the size of structured notes market has grown to Rs 23,000 crore from Rs 878 crore. But the trading volume is less than a crore a day in this segment. “The secondary market in corporate debt is so illiquid that we can very well say there is no such market,” said BP Kanungo, deputy governor at the central bank. While mutual funds have their own credit appraisal methods, a lot of it depended on rating companies that were caught napping. Two of the biggest defaults in the past year – IL&FS and Dewan Housing – carried triple A rating almost until they missed payments. Naresh Thakkar was shown the door by ICRA, a unit of Moody's Investors Services, for his suspected role in meddling with rating actions. Sebi has come up with a new set of rules like disclosing near-period performance to capture their performance. This has led to quick and often overnight junking of some debt papers. “The rating transition of some corporate debt, particularly those issued by financial firms, has been phenomenal – from sound credit to junk,” said Kanungo. While the regulator tightened rules for rating companies, it came up with a bail-out plan for the industry facing such troubles – a concept called ‘side pocketing’ – where a fund can set aside the defaulted paper and redeem units at the net asset value minus the amount stuck with the defaulter. This led to a sudden drop in the NAV of a scheme which faced a default from a borrower. Although investors may get whatever value the fund realises when a resolution happened, it hit at the very foundation of the mutual fund concept – liquidity at the click of a button with pass through. “Side pocketing ensures that some investors can get a more-than-fair share of the fund’s real value and some can get a less-than-fair share,” says Dhirendra Kumar, founder & CEO, Value Research, a mutual fund research company. Every financial asset and investments in these instruments through mutual funds carry some risks. However, in India banks are a different class with the assumption of 100% safety, although deposit insurance covers just about Rs 1 lakh of investments. Given the RBI’s undeclared commitment to protect depositors and nearly three-fourths of the banking system owned by the government, people take the safety of their funds as granted. Although investors are used to see their NAVs in equity schemes fall dramatically over a period of time, they were unaccustomed to the erosion of value in debt funds. “We do not have a strong history of bond defaults, which have been happening in the past one year,” said Kumar of Value Research. “This is only a tiny portion when it compares with mammoth bank bad loans. The latest default is like a Delhi winter for a person, who has never experienced winter in true sense.” While investors get used to the risks associated with debt funds, the faith in the industry is being dented by the quick recourse to side pocketing and deals with defaulters for later payments. Mutual funds as financial intermediaries have helped companies diversify their risk, reduce their borrowing costs, and help investors earn better returns. But the faith built over the past two decades needs to be maintained by ensuring practices that are transparent as investors digest the risks associated with such investments. “The tagline often associated with mutual funds is ‘Mutual Funds Sahi Hai’, said Tyagi. “We ought to remember that it takes years to build trust in an industry and only a single event may erode it. So, there should be a collective effort by all stakeholders, including AMCs, trustees and Sebi to uphold and maintain that trust and faith.”
Bankers Can Now Take Decision Without Fear, CVC Sets Up Panel To Examine Fraud:

Anti-corruption agency CVC has set up the Advisory Board for Banking Frauds, headed by former Vigilance Commissioner T M Bhasin, to examine bank frauds of over Rs 50 crore and recommend actions, in line with Finance Minister Nirmala Sitharaman's call for protecting honest decision making. This development will instill a sense of protection among bankers from prosecution for genuine decisions, and promote lending. It will decide whether the case is a criminal act or a genuine commercial decision and accordingly, recommend the future course of action. When asked about the move of the Central Vigilance Commission (CVC), Finance Secretary Rajiv Kumar said this will enable bankers to take genuine and commercially prudent decision without fear. The panel in its previous avatar was called the ‘Advisory Board on Bank, Commercial and Financial Frauds’. The Advisory Board for Banking Frauds (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 case of allegation of 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. “(The) 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 of two years, 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. The Reserve Bank of India (RBI) will provide required secretarial services, logistic and analytical support along with the necessary funding to the board headquartered in Delhi. 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. The framework also said that a report be placed before the bank’s Committee for Review of NPAs based on the findings of the investigation. On August 23, Sitharaman said the CVC has issued directions that an internal advisory committee (IAC) in banks be set up to classify possible fraud cases as ‘vigilance’ and ‘non-vigilance’ and to support decision making, and prevent harassment for genuine commercial decisions by bankers.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/bankers-can-now-take-decision-without-fear-cvc-sets-up-panel-to-examine-fraud/articleshow/71187264.cms
Dated: Sep 18, 2019

• Indian Bank Board Gives In-Principle Approval To Merge Allahabad Bank With Itself:

Indian Bank on Wednesday said the board has given its in-principle approval for the merger of Allahabad Bank with itself. It also cleared the proposed infusion of capital by the government up to Rs 5,000 crore in the bank by way of preferential issue of shares, Indian Bank said in a statement. The board after deliberations conveyed its in-principle approval for the amalgamation of Allahabad Bank with Indian Bank, it said. After the amalgamation, the combined entity will have over 6,100 branches across the country and overseas presence in three countries, it said. The business after the amalgamation will be more than Rs 8 lakh crore. The Union government had last month approved to merge 10 state-owned banks into four entities, to strengthen them and also to cut number of publicly hold banks into of the global-sized banks. Among the other amalgamation proposals, Punjab National Bank is to merge Oriental Bank of Commerce and United Bank of India with itself. And, Canara Bank will merge its regional peer Syndicate Bank with itself. With these merger proposals, the number of state-owned banks in India is slated to come down to 12 from 18 earlier. Until 2017, there were as many as 27 banks under the ownership of the government.

Dated: Sep 18, 2019

• Allahabad Bank To Offer Repo Linked Retail, Small Business Loans From October:

State-owned Allahabad Bank on Wednesday said it has launched repo-linked retail and small business loans. The decision has come in line with the Reserve Bank of India guidelines of September 4, 2019, Allahabad Bank said in a regulatory filing. The bank had decided to launch retail loans and loans to micro & small enterprises linked with external benchmark rates published by Financial Benchmarks India Pvt Ltd (FBIL), it said. “Presently, the bank has identified RBI’s repo rate and three month MIBOR as the benchmark rates,” it said. Further, all the saving bank deposits of Rs 40 lakh and above, long tenure fixed deposit, bulk deposits and flexi fix deposits will be linked with external
benchmark rate i.e. RBI’s repo rate, it added. The products will be available for general public with effect from October 1, 2019, Allahabad Bank said. Stock of Allahabad Bank closed 2.31 per cent down at Rs 31.70 on the BSE.

Dated: Sep 18, 2019

• ‘RBI Yet To Hear From Any Banks On Fixed-Cum-Floating Loans’:

The Reserve Bank has not received any request from any banks seeking to introduce fixed-cum-floating rate loans, especially home loans, a source said. State Bank chairman Rajnish Kumar had over the past weekend said the bank would seek clarification from the regulator on whether it could offer long-term home loans that would initially have fixed rates and then move onto a floating rate structure to balance the asset-liability mismatch. His comment came after the RBI had earlier this month mandated all banks to link their personal or retail loans to floating rate linked to an external benchmark. Kumar had said there was some ambiguity on fixed rate products after the RBI’s new mandate on linking retail loan to an external benchmark. “The RBI has not got any formal request (to allow fixed plus floating loan rates for home loans),” a source said Wednesday. He said the central bank has some reservation over such products which are also known as ‘teaser loans’ as they have potential to create risks in the system in future. “Such loans can push risks to a future date and that is something RBI is concerned about,” the source explained. Earlier this month, RBI had mandated banks to link all new floating rate personal or retail loans and floating rate loans to MSMEs to an external benchmark from October 1. The central bank had asked banks to link these loans either to repo rate or to 3-month or 6-month Treasury bill yields or any other benchmark interest rate published by Financial Benchmarks India. The monetary authority said banks can offer such external benchmark linked loans to other types of borrowers as well and are to free to decide the spread over the external benchmark.

Dated: Sep 18, 2019

• FinMin To Hold Review Meeting With Public Sector Banks On Thursday:

Finance Minister Nirmala Sitharaman will hold a review meeting with public sector banks (PSBs) on Thursday to discuss various issues, including follow up on transmission of monetary policy rates. The government is set to ask PSBs to expeditiously introduce repo-rate linked products “to step up affordable credit”, according to an agenda item of the meeting. The Reserve Bank of India (RBI) had earlier this month made it mandatory for banks to link all their fresh retail loans to an external benchmark - effective October 1 - and the central bank’s repo rate being one such benchmark. Following the move, banks such as Punjab National Bank and Allahabad Bank announced linking their retail loans with the RBI’s repo rate. The finance ministry will also discuss ways in which PSBs can offer doorstep banking facility. Some PSBs offer doorstep banking for citizens over 70 years of age and differently-abled customers. Additionally, the ministry will discuss how banks can help customers in tracking online loan applications for retail, MSME (micro, small and medium enterprise), housing, and vehicle loans, among others. The finance
ministry will ask the top management of banks to closely monitor “loans to MSMEs, small traders, SHG (self-help groups) and micro finance Institutions borrowers and collaboration of banks with non-banking financial companies for co-origination of loans”. The Centre will also review the announcement made by the Finance Minister last month to mandate release of security documents within 15 days of loan closure. It is intended to help customers, especially in the corporate sector, who face difficulties in applying for various clearances due to pending loan repayment. The ministry will take a stock of pooled assets of NBFCs or housing finance companies purchased by PSBs, following a one-time credit guarantee of up to Rs 1 trillion announced in the Budget 2019-20.


Dated: Sep 18, 2019

• RBI Reserves Can Fund National Security Exigencies:

The recommendations of the panel to revise the economic capital framework of the central bank are not cast in stone and the revaluation balance accumulated due to the depreciation of the rupee — currently left untouched — can be partially used to fund defence or security exigencies if need arises, former governor Bimal Jalan who headed the panel told Mint in an interview. “If you need it in some later years, something requires to be done, there is a defence or security (exigency) as it happens from time to time, then you can do that, next year or year after. All these things are open to consideration depending on what the circumstances are,” Jalan said, RBI’s capital reserves — a technical issue replete with jargons—has become a hotly debated and often a political issue in recent times. While the government feels the central bank is sitting on excess capital which can be better utilized for socio-economic benefit of its citizens, critics often point out that it would amount to “raiding the RBI” for short-term benefits which will compromise the credibility of the central bank. The differences between RBI and government led to first governor Urjit Patel and subsequently his deputy Viral Acharya resign from the central bank. To determine the level of excess capital of the RBI, the government in December 2018 set up a panel headed by Jalan with former deputy governor Rakesh Mohan and representatives of the finance ministry and the central bank as members of the committee. The committee last month recommended a new formula for the transfer of surplus reserves to the government, through which the Centre received a onetime payout of Rs. 52,637 crore. This was well below market expectations and calculations by former chief economic adviser in the finance ministry Arvind Subramanian, who had claimed that the RBI was in possession of Rs. 4.5-7 trillion of excess reserves, which could be utilized for recapitalizing public sector banks. Jalan in the interview said the report was not a “constitutional activity” and only advisory in nature. “Anybody can touch anything. It’s up to government and the RBI. The RBI can revise its opinion. It’s not written in stone. The RBI and the government may have accepted the report. But if more is required, all those options are open. If something is required to be done in public interest, this report does not say it should not be done. Both the RBI and the finance ministry take action based on the current situation. If circumstances change, then the action will change,” he added. The Jalan panel had decided not to touch the revaluation reserves-the major
portion of RBI's capital base reflecting nominal gain of its assets which are yet to be realized. Justifying its decision not to touch the revaluation balances, the committee said such reserves are highly volatile, and whose levels move autonomously depending on RBI's discharge of its public policy objectives of maintaining price, financial and external stability, coupled with international market developments reflected in movements in the price of foreign assets, exchange rate, interest rate and gold price. The panel said RBI transferring 'what it has not received' could be seen as monetization of fiscal deficit. Trying to realize these revaluation gains would involve selling a substantial portion of the RBI's dollar assets which could result in unsustainable temporary rupee appreciation; compromised monetary policy stance with severe liquidity and credit squeeze which will have an adverse impact on growth and stability; along with the moral hazard issue of setting the precedent for using rupee depreciation funding fiscal expenditure, the report said. The Committee however was of the view that it should not concern itself with the issue of alternative deployment of excess accumulated revaluation balances as it did not fall within the committee's terms of reference. It recommended that 'excess' revaluation balances, if any, should continue to remain on the balance sheet as risk buffers for market risk, till such time that they are realized through the sale or maturity of the underlying asset. The RBI's realized equity or the component, actually determined by the central bank's management, was 7.2% of its balance sheet in 2018, with revaluation balances accounting for 73% of the RBI's economic capital, against 37.9% in 1997. During periods of stress and currency depreciation, the revaluation balances of central banks typically go up, and does not truly reflect financial resilience. “The committee recognized that the RBI's financial stability risk provisions need to be viewed for what they truly are, i.e., the country's savings for a rainy day (a financial stability crisis), built up over decades, and maintained with the RBI in view of its role as the lender of last resort. Its balance sheet, therefore, has to be demonstrably credible to discharge this function with the requisite financial strength,” the panel's report said. Given that the government's manoeuvrability on the recapitalization of commercial banks or the possibility of the RBI getting constrained during a financial stability crisis, the committee recognized the need for the RBI to maintain adequate risk buffers to ensure appropriate level of financial resilience in such circumstances. The committee noted that about half of the 53 central banks surveyed as a part of its own cross-country survey incurred a loss at least once over the last five years because of valuation gains. Incidentally, if the RBI followed this accounting approach, it, too, would have suffered a loss, at least in 2004–05, 2006–07, 2009–10 and 2016–17, as valuation losses would have exceeded the RBI's surplus in those years, according to the report. For instance, in 2006–07, 75% of the RBI's revaluation balances were wiped out, amounting to 1.5% of India's GDP. In 2016–17, the RBI's revaluation balances fell more than Rs. 1 trillion due to an appreciating rupee and cross-currency movements. “The only reason the markets, government fiscal balance and the economy as a whole are not impacted was that the RBI had sufficient risk provisioning to absorb these risks,” the committee concluded.

Dated: Sep 19, 2019
Fund Houses, Kapoor In A Bind As Yes Bank Stock Remains Under Pressure:

If you have bitten a bullet, you better chew it too. Fund houses that have financed Yes Bank co-founder Rana Kapoor are finding it hard to do this. Enticed by returns during good times, fund managers had entered into a layered deal that uses Kapoor's Yes Bank shares as collateral for a loan. The loan is unsecured since the shares were unencumbered. Simply put, investors can't force Kapoor to sell his share to make good a repayment. Since good times seldom trigger prudence, fund houses were too happy to overlook. But what can you expect if capricious equity is collateral for a debt instrument that demands disciplined repayment? Yes Bank shares fell 5.6% today, making the lender the biggest loser on the Nifty in the first hour of trade. The stock has dropped a massive 75% in the last five months and needless to say has spooked everyone, including Kapoor. Kapoor's vehicles are Morgan Credits Pvt Ltd and Yes Capital through which he owns shares in Yes Bank. Both are in a bind now. Care Ratings downgraded Morgan Credits bonds to BBB- from A- on Tuesday even though fund houses had forced Kapoor to secure the loan through pledging shares last week. Of course, this meant that the collateral value can be lowered. In February, when Care Ratings had given A- to the bonds, the collateral to loan ratio was 2.0. Since then Yes Bank shares have dropped 63%, resulting in the downgrade. In the case of Yes Capital, however, the value of shares has to be 2.25 times that of the loan because there is no pledge. As of August, the outstanding bond of Yes Capital rated by Care Ratings was Rs. 207 crore, against Yes Bank stake of 2.97%. The fall in the bank's shares has brought down the cover to 2.37 times from as high as 4 times three months ago. “So far, the cover is comfortable. But if Yes Bank shares were to fall sharply again, then the investors will just have to take the hit,” said an analyst requesting anonymity. While Kapoor can't be forced to sell, investors can ask him to make good the shortfall in collateral value. Indeed, media reports suggested that Morgan Credits would repay investor Reliance Nippon Asset Management Co as Kapoor looks to monetise stakes in other companies. He also owns 3.92% stake directly in Yes Bank. Meanwhile, the bank's shares were down over 1% on Wednesday, perhaps in expectations of Kapoor selling off shares to pay back investors. The capital markets regulator has mandated mutual funds to ensure a collateral cover of four times the loan size, but no timeline has been indicated. According to J.N. Gupta, a former executive at Securities Exchange Board of India (SEBI), the best recourse for investors is to invoke pledges. Where it is not possible, unfortunately, they may end up taking the hit. “MFs did not anticipate these things when investments were made in innovative structures. Now they will have to face the reality,” he said. The rating downgrade of the shares-backed bonds will force fund managers to side-pocket their investments, as well as demand Kapoor make good the shortfall in value. Perhaps Kapoor's turnaround to a willing seller of Yes Bank shares from someone who considered them diamonds forever was driven partly because of the probability of pledges being invoked.


RBI Asks Banks, NBFCs To Limit Sharing Of Consumers' Credit Data:

The Reserve Bank of India (RBI) has asked banks and non-banking finance companies (NBFCs) to restrict access to consumers’
credit data, reports The Economic Times. The central bank, in a letter, has asked banks and NBFCs to stop granting unregulated entities access to consumer data held by credit information companies, the report said. The move will impact the business model of Fintech companies. Such sharing of information is a violation under the Credit Information Companies (Regulation) Act, 2005 (CICRA), and the banking regulator has warned regulated entities that it may penalize them in case of a breach, the report said. The lenders have to inform the central bank within 15 days if they have implemented the measures. Money-control could not independently verify the story. The central bank sent the letter on September 16. The following day RBI representatives met the heads of four credit information companies. Banks and NBFCs are required to provide details of every retail loan to all four credit information bureaus – TransUnion CIBIL, Equifax, Experian and CRIF High Mark. As per RBI, this data is supposed to be confidential. But it found that banks and NBFCs partner with Fintech companies and institutional agents, giving them access to the data without consumers' consent. “This kind of outsourcing model has been prevalent for a few years. These agents include online marketplaces, IT companies, analytics firms and institutional agents,” a source told the paper. This pattern of data sharing appeared during an annual audit of some banks, the report stated. “The RBI sought clarity on the provisions under which the data was being shared under CICRA,” a senior executive at one of the credit information bureaus told the paper, adding that this practice has been happening for years.


**Dated:** Sep 19, 2019

- **Oriental Bank To Offer Retail And Small Biz Loan Products Linked With Repo From Oct 1:**

State-owned Oriental Bank of Commerce (OBC) on Thursday said it has launched new retail and micro & small enterprise (MSE) loan products linked to the Reserve Bank of India's repo rate. The new products will be available to borrowers from October 1 onwards. Interest rates on these products will directly be linked to an external benchmark, which in this case is the repo rate, it said in a release. The bank added that the link will ensure fair and transparent transmission of the monetary policy rate immediately to the customers, it said in a release. “All new floating rate loans to MSEs and retail loans offered by OBC shall have interest rate linked to the repo rate. With the new variant, repo rate-linked home loans will be available at interest rate of 8.35 per cent onwards and loans for MSE borrowers will be available from 8.65 per cent onwards,” the bank said.


**Dated:** Sep 19, 2019

- **Banks With Exposure To Poorly-Run NBFCs Will Have To Take Larger Haircuts, Warns RBI Governor:**

Banks will have to take more haircuts while resolving the stressed loans extended to non-banking lenders who are found wanting on the corporate governance front, Reserve Bank governor Shaktikanta Das warned Thursday. On the government move to have merge 10 banks to four larger ones, Das said the amalgamations ought to be non-disruptive and affirmed the central bank's support to ensure the same is achieved. Das’ comment on non-banking finance
companies (NBFCs) comes at a time when banks are grappling with the resolution of stressed cases like their over Rs 50,000 crore dues from mortgage financier DHFL. The Wadhawans-promoted stressed entity was accused of corporate governance lapses in the past. “(In resolving the crisis at those) NBFCs which have major governance issues, they (banks) need to take a larger haircut. These are business failures but there is also an element of administrative or governance lapses in them, “ Das said while speaking at an event organized by Bloomberg News here this evening. Das further said banks will have to take a “balanced call” while dealing with the issues of stressed loans. He, however, made it clear that RBI will not immediately resort to using recent amendments in the statutes which empower it to take control of an NBFC, as the first priority is be to find “market based” solutions for the same. The market-based solutions can involve promoters cutting stake, new promoters coming in or securitisation of the assets to raise resources to come out of liquidity issues. He said RBI continues to monitor the 50 largest NBFCs on a continuing basis and it will be using the powers of the amended statutes only if any need arises. It can be noted that the going has been tough for many an NBFC over the last one year, since infra-focused sectoral major IL&FS started defaulting on its loans, exposing the chinks in the sector that contributes a fifth of the total credit assets of the country beginning last September. The IL&FS saga triggered a liquidity crisis among NBFCs immediately, but RBI refused to play its role as the lender of last resort, attributing the crisis to asset liability mismanagement. NBFCs typically depend on short-term borrowing to finance long-term assets like home loans, which has led to the troubles in the sector, the RBI had said. On the issue of bank mergers, Das said the move by the government will have to be non-disruptive and normal operations, including lending and recovery of dud assets should not be impacted because of the same. Boards of most of these 10 banks are yet to take decisions on the mergers, and the RBI will fully help to make the mergers process as smooth as possible, Das said making it clear that the issue will reach RBI only when the boards decide formally. Das said these banks have formed internal working groups to make the merger process smoother.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/banks-with-exposure-to-poorly-run-nbfcs-will-have-to-take-larger-haircuts-warns-rbi-governor/articleshow/71207015.cms
Dated: Sep 19, 2019

• RBI To Ensure Mega Bank Mergers Are Non-Disruptive, Shri Shatikanta Das:

The Reserve Bank is in discussions with the government to ensure that the mega bank merger process is carried out in a non-disruptive, governor Shatikanta Das said Friday. The critical issue is to ensure that the process of transition following the merger should be in the most non-disruptive manner, he said. Last month, the government had announced creation of four large state-run banks by merging ten of them. That will take down the number of total state-owned banks to 12 from the 19 this April. “This is an issue which is also being discussed between the government and the RBI so as to ensure that the entire process of transition is non-disruptive,” Das said at an India Today event. The governor said the transition has to be non-disruptive in terms of credit disbursements, loan repayments, loan collections and all other functions of banking should not be affected. Of the 10 banks getting merged, only a few of them have so far received the board mandate and none of them have moved the RBI seeking approvals.
• **AITUC Backs Bank Officers’ 2 Day Strike Against Merger Of Banks:**

Central trade union All India Trade Union Congress on Friday announced its support to the two-day strike called by bank officers’ unions next week to oppose the merger of public sector banks. Bank officers’ unions have given a strike call on September 26 and 27. “The government’s move (to merger banks) is actually meant to create space for private banking, which the AITUC is strongly opposed to. Therefore the AITUC backs the strike call and prepares for a national convention of the workers to move into action to oppose all such anti-people and pro-corporate policies,” an AITUC statement said. Since August 30, 2019, when the government announced its plan to merge 10 banks into four (third time), there have been strong protests from common people, including bank officers and employees, the statement said. Because the government is adamant, the officers have decided to take their protest to a higher level: a two day strike on September 26 and 27 and indefinite strike from the middle of November if the government persists with their plan. AITUC pointed out that earlier two mergers have not resulted into any tangible gains as bad loans have not come down. The merged banks are not in any advantageous position to lend, many branches have closed, employees have had their seniority rankings completely muddled, it added. The claim that the government wants to increase the size of banks to bring them on par with global players is laughable— all the PSU banks put together will have their total capital only a fraction of the so-called global players, the union said. But our farmers do not need big banks, they need a bank branch in their village so that they don’t have to depend on the usurious money lenders, it said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-to-ensure-mega-bank-mergers-are-non-disruptive-shatikanta-das/articleshow/71218160.cms
Dated: Sep 20, 2019

• **RBI Announces New Guidelines For ‘Failed’ ATM Transactions:**

In a big boost for customers making e-commerce payments online, banks will now have to resolve failed debit card transactions within five days, and UPI and wallet based transactions within one, as per latest guidelines on Turn Around Time (TAT) announced by the Reserve Bank of India on Friday. Furthermore, the central bank has also instructed all payment operators to also resolve failed ATM, swipe machine and Aadhar Enabled Payments (AEPS) transactions within five days and IMPS transactions in one day as well. Failure to resolve complaint within the stipulated time would make these lenders liable to pay customers Rs.100 for every delayed day, the apex regulator told banks and payment system operators in a circular posted on RBI website. A failed transaction is when an account gets debited but the payment is not registered; a pain point faced by many customers especially while transacting online. “It has been observed that a large number of customer complaints emanate on account of unsuccessful or ‘failed’ transactions,” the central bank said. “Failure should be on account of various factors not directly attributable to the customer such as disruptions of communication links, Non Availability of cash in ATMs, time out of sessions, non-credit to beneficiary’s due to
various causes, etc.” Earlier, in the absence of a uniform guideline for addressing these complaints, each bank had their own resolution and compensation policies. RBI governor Shaktikanta Das had pointed this out in April while making his monetary policy speech and initiated a consultation process to find an adequate solution. “Rectification/Compensation paid to the customer for these ‘failed’ transactions is not uniform,” the central bank circular read. “After consultation with various stakeholders, the framework for TAT for failed transactions and compensation therefore has been finalized which will result in customer confidence and bring in uniformity in processing of the failed transactions?”

Dated: Sep 20, 2019

• **Banks’ Credit Must Grow 12 Per Cent To Meet $5 Trillion Economy Target, SBI Official:**

The credit from banks must grow by 12 per cent every year to meet the Centre’s target to achieve a USD 5-trillion economy within the next five years and the step taken for mergers of the PSBs is in the right direction to meet the goal, a top SBI official said Friday. Supporting the move to merge the public sector banks (PSBs) by the Union Finance Ministry, State Bank of India (SBI) MD Dinesh Kumar Khara said that the merger is “well-thought of” and will strengthen the banking system to support the economy to pursue USD 5-trillion target.

“The banks’ credit must grow by 12 per cent year-on-year to meet the goal. Now the banks’ credit is about Rs 98 lakh crore. The decision to merge the PSBs is in the right direction to meet the target,” Khara said at an event, organised by CII here. SBI Deputy MD S K Varma said credit demand from the large corporates was “sluggish” so far in this fiscal but a revival in near future with good monsoon is expected. He further said there was “no shortage” in liquidity. In the biggest consolidation exercise in the banking space, the government had announced four major mergers of public sector banks, bringing down their total number to 12 from 27 in 2017. United Bank of India and Oriental Bank of Commerce will be merged with Punjab National Bank, making the proposed entity the second largest PSB. Similarly, Syndicate Bank will be merged with Canara Bank, while Allahabad Bank will be amalgamated with Indian Bank. Andhra Bank and Corporation Bank will be consolidated with Union Bank of India. PSBs are under pressure to meet the capital adequacy requirements under Basel III and looking at the government support for capital, Khara said. “Government had been supportive to capitalise these banks. There is a question mark on how long this will happen. Keeping this in mind, perhaps, the merger has been conceived. Maybe, the government needs to ensure that the funds are used as growth capital,” Khara said while replying to a question. Elaborating the benefit of merger of its associate banks with SBI, he said the bank had saved Rs 4,350 crore in rationalising human resources in its branches, another Rs 1,800 crore from treasury operations and others and Rs 400 crore through reduction of cost of resources. It helped in improving financial positions and better ratings on the global benchmarks, he added.

Dated: Sep 20, 2019
• **RBI Hikes Loan Cap To Rs 40 Crore For Small Exporters:**

Aiming to boost credit supply to small exporters, the Reserve Bank Friday enhanced the loan sanctions limit qualifying as priority sector lending by banks to Rs 40 crore per borrower. The limit was capped at Rs 25 crore per borrower earlier, according to a notification. It can be noted that the RBI and the government have been taking a slew of measures to spur economic growth, which has dipped to a six-year low by taking slew of measures. The RBI has also decided to remove the existing criteria of ‘units having turnover of up to Rs 100 crore’ as part of the changes. The changes have been done “to boost credit to the export sector”, the central bank said in the notification. Priority sector lending is a mandatory requirement under which lenders are required to devote a portion of their advances to empower focused groups of the economy. All sectors put together, this adds up to 42 percent of the total lending for each bank. Existing guidelines for domestic scheduled commercial banks to classify ‘incremental export credit over corresponding date of the preceding year, up to 2 percent of adjusted net bank credit or credit equivalent amount of off- balance sheet exposure, whichever is higher’ under PSL will continue to be applicable, the RBI said. There is no change in the present instructions in respect of foreign banks, it added.

*Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-hikes-loan-cap-to-rs-40-crore-for-small-exporters/articleshow/71224528.cms*

*Dated: Sep 20, 2019*

• **Stakeholders To Benefit From Merger Of PNB, UBI and OBC:**

The proposed amalgamation of Punjab National Bank, United Bank of India and Oriental Bank of Commerce will provide benefits to their stakeholders and help the country to become a USD 5-trillion economy, an official said here on Friday. Allaying apprehensions of stakeholders, United Bank of India MD and CEO Ashok Kumar Pradhan said there will be “no retrenchment” of human resource of the three banks or no voluntary retirement scheme (VRS) will come in the process of merger of these state-run lenders. “PNB, OBC and UBI are being merged to make them a bigger force and the collective efficiency of the staffs of the three banks will help customers”, Pradhan said addressing a press conference here after an interactive meet with the city-based employees and customers of the three banks. The merger will help the country's economy and improve the capital base of the lenders to take on big development projects and offer best operational facilities, Pradhan said, adding that there is enough liquidity in the banks. With a combined capital base of Rs 17.96 lakh crore as on March 31, 2019, the UBI chief said this amount would become over Rs 20 lakh crore after amalgamation. “We will have a huge presence with over one lakh workforce,” he said. He further said that the merger will help the Centre's target to achieve a USD 5-trillion economy within the next five years. On the technology integration, he said all the three banks were using the same computer programme and both UBI and OBC are upgrading it to the latest version used by the PNB. Responding to queries whether the present account numbers of the three bank customers will be changed after the amalgamation, Pradhan said, “With the technological integration the account number will be changed and it will be done smoothly without any discomfort to the customers.” He also said some branches of these banks will be combined into one if they exist in the same locality while some
of them will be relocated to the uncovered areas.

Dated: Sep 20, 2019

- **Rana Kapoor’s Stake Sale To Have No Impact On Growth Plans, Says Yes Bank:**

Yes Bank has clarified that the sale of stake by former CEO Rana Kapoor will have no impact on the bank’s plans. In a statement to the BSE, the bank said that its growth plans remain firmly on track. “The board of directors of Yes Bank would like to state that the financial position of the bank is sound and stable, its operating performance continues to be robust and its growth plans stay firmly on track. As has been publicly disclosed, one of the promoter entities of Yes Bank sold a part of its stake yesterday. This sale was effected purely to deleverage the debt of this entity,” the bank said. On Thursday, Morgan Credits Pvt Ltd (MCPL), the holding company controlled by Yes Bank co-founder Rana Kapoor has reduced its stake in the bank by 2.3% to prepay non-convertible debentures (NCDs) from Reliance Nippon Life Asset Management Co. A total of 5.8 crore shares were sold at Rs 58.16 a piece to net Rs 337 crore which will be used to pre pay the debentures. The shares were sold via a block deal in the market. “The proceeds will be solely utilized to prepay substantial portion of outstanding NCDs of MCPL subscribed by various schemes of Reliance Nippon. MCPL had in April 2018 placed rated, zero coupon NCDs amounting Rs 1160 crore with Reliance Nippon, the only borrowing of MCPL,” MCPL said in media statement. MCPL had made total prepayments (including interest) to NCD holders of Rs 722 crore till date, ahead of the scheduled maturity date of April 2021.

The share sale has also reduced the total promoter/ promoter group ownership in Yes Bank to 15.7% from 18%.

Dated: Sep 21, 2019

- **No Concern To Asset Quality Post UBI, OBC Merger, PNB CEO:**

The Punjab National Bank (PNB), which is the anchor bank for a scheduled merger with the United Bank of India (UBI) and the Oriental Bank of Commerce (OBC), has said that it does not see any erosion in asset quality after the merger and the best HR, process and products will be chosen for the consolidated entity to offer a win-win situation for the combined staff and customers of these three banks. “Everything relating to the merger is going on smoothly. We don’t foresee any challenges. Other banks have done it successfully and we can repeat that. The asset quality of PNB and the merging banks will not at all suffer rather it will strengthen as they will have a collective bargaining and negotiating power with the defaulters,” Sunil Mehta, the Managing Director and CEO of PNB told IANS. “In terms of roadmaps, we have already created inter-bank committees which are interacting with each other on the best processes, products and systems to be adopted for each bank and the best will be selected for a win-win situation for the customer. Similarly the best practices among the HR will be adopted for the staff.” The merged entity will be operational from April 2020. Under the consolidation, the three banks will be merged into one entity to make the second-largest PSB with a business of Rs 17.95 lakh crore and 11,437 branches. The three banks recently got a capital infusion of Rs 16,000 crore. The OBC was earlier a
Prompt Corrective Action (PCA) bank under the Reserve Bank of India (RBI) with lending, management compensation and directors’ fees and branch expansion restrictions. But in February this year, it was out of the PCA. The respective boards of the three banks have given in-principle approval for the amalgamation. The UBI’s Board of Directors has approved in-principle a plan to raise upto Rs 3,000 crore via a preferential sales of shares. The UBI, currently under PCA, will come out of the framework because of bank merger. On September 19, Finance Minister Nirmala Sitharaman met the heads of the public sector banks where the issue on the preparation of merging banks to meet the April 2020 deadline was discussed, along with credit offtake in retail, and home and personal loans. The government last month announced the merger of 10 public sector banks into four strong lenders with countrywide networks and global reach to boost credit and revive economic growth in the nation’s bid to become a $5 trillion economy in the next five years. After this, the total number of public sector banks will come down from 24 to 12.


Dated: Sep 22, 2019

HDFC Bank To Hold 1000 Loan Melas:
HDFC Bank, India’s largest lender by market capitalisation, has planned to organise 1,000 Grameen Loan Melas over the next six months after the finance minister asked lenders to expand credit through loan melas last week. These village loan fairs will be held across more than 300 districts and cover around 6,000 villages across the country “We want to take banking products to the doorstep of every Indian,” said Arvind Vohra, country head of branch banking, HDFC Bank. “Grameen Loan Melas allow us to do just that, taking HDFC Bank’s entire range of products and services.” Residents of these rural areas can avail of loans to purchase tractors, vehicles, two-wheelers and take credit for agriculture purposes. They can also open current or savings accounts while opting for consumer durable loans at no extra costs. HDFC Bank will also offer business loans and emerging enterprise loans to small traders and shopkeepers. Furthermore, Self Help Groups (SHGs) can avail of finance through the bank’s Sustainable Livelihood Initiative (SLI). Such village fairs would also serve as a platform to educate the local people about banking services. “Services like Missed Call Banking, which allow customers to complete basic banking transactions such as checking account balance, ordering a cheque book by dialling a toll free number, will be showcased at the melas,” HDFC Bank said in a release. The bank’s network of 5000 branches will support those melas. Over half of those branches are in rural and semi urban areas. “We believe initiatives such as these will help fulfil the changing aspirations of customers in rural India, bring prosperity to their homes and boost the rural economy,” said Vohra.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/hdfc-bank-to-hold-1000-grameen-loan-melas-over-next-6-months/articleshow/71244715.cms

Dated: Sep 22, 2019

SBI To Roll Out Co-Lending Model With 4-5 NBFCs:
State Bank of India (SBI) is expected to launch a co-lending business model soon with 4-5 medium to large-sized NBFCs, an official of the lender said. Once the present hurdles relating to the integration of technology with the non-banking finance
companies (NBFCs) are removed, the model of co-lending will be launched and it will be completely automated without manual intervention from on-boarding of customers to loan disbursement and monitoring, the SBI official said. Under the co-lending model, the bank will have an exposure between 70 and 80 per cent while the rest will be borne by the NBFCs but this arrangement will be “only” for the priority sector lending, he said. “We are close to launch co-lending financing model with NBFCs in line with the Reserve Bank of India guidelines. We will tie-up with 4-5 medium to large-sized NBFCs and it would be finalised in 30-40 days,” SBI Deputy Managing Director Sujit Kumar Varma said. It has been a year since the Reserve Bank of India (RBI) laid out the framework for co-origination of loans by banks and NBFCs in the priority sector. Co-origination is a new system introduced by the RBI in the wake of the liquidity crisis at non-banking finance companies to enhance the credit flow to productive sectors. The designated officials are looking at the tie-ups with NBFCs and the lender is weighing whether the NBFCs have a robust business model and technology , he said. “Entire process of co-lending business model will be automated taking from business proposal to disbursement and tracking of the account. Now, integration of technology of both the bank and NBFCs is underway,” Varma said. He said the co-lending model would help the bank to meet the priority sector lending target.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-to-roll-out-co-lending-model-with-4-5-nbfcas/articleshow/71246636.cms
Dated: Sep 22, 2019

- SBI To Adopt Repo Rate As External Benchmark For All Floating Rate Loans From Oct 1:

State Bank of India on Monday said it will adopt repo rate as the external benchmark for all floating rate loans for MSME, home and retail loans, from October 1, 2019. On September 4, the Reserve Bank of India (RBI) had mandated all banks to link all new floating rate personal or retail loans and floating rate loans to micro, small and medium enterprises (MSMEs) to an external benchmark from October 1 onwards. “We have decided to adopt repo rate as the external benchmark for all floating rate loans for MSME, housing and retail loans effective October 1, 2019,” the bank said in a release. The RBI gave the banks options to benchmark their floating rate loans either to repo rate, three-month or six-month treasury bills or any benchmark market interest rate published by Financial Benchmarks India Private (FBIL). The bank has also extended the external benchmark-based lending to medium enterprises, to boost lending to the MSME sector as a whole. It had introduced floating rate home loans effective July 1, 2019, but has made some modifications in the scheme effective October 1, 2019, to comply with the latest regulatory guidelines, the release said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-to-adopt-rbis-repo-rate-as-external-benchmark/articleshow/71255005.cms
Dated: Sep 23, 2019

- RBI Panel Recommendations Credit Positive For Mortgage-Backed Securities:

Moody’s Investors Service on Monday said the 9 September recommendations of the Reserve Bank of India’s (RBI) Housing Finance Committee, if implemented, will be credit positive for Indian residential mortgage-backed securities (RMBS). It said one of the recommendations is to
standardize loan servicing processes across home loan lenders to make it easier to transfer loan servicing from one provider to another, if the original provider fails. “The recommendation would be credit positive for Indian RMBS because it will increase the likelihood that a suitable replacement can step in and take the place of a failed operator,” said Dipanshu Rustagi, an assistant vice-president and analyst at Moody’s. The RBI also recommended standardizing loan documentation criteria and establishing minimum loan eligibility and disclosure requirements for RMBS deals. “Such a move will increase transparency in the Indian mortgage sector, reducing risks in the underlying loans backing RMBS deals,” added Rustagi. Another recommendation is to link home loan lending rates to a common external benchmark, such as the RBI’s repo rate. Moody’s said such a correlation will mitigate interest rate risk in RMBS transactions, because it will remove the interest rate mismatch between a lender’s own benchmark rate and coupon rates. “As for the recommendation on the tax treatment of securitization transactions, Moody’s says that if implemented, such a measure will support the development of the Indian RMBS sector, by removing uncertainty for originators and investors,” the rating agency said in its note. The central bank has requested comments on the recommendations by 30 September, and the central and state governments, financial regulators and tax authorities will need to approve recommendations within their purview before the changes can be implemented.

Source: https://www.livemint.com/industry/banking/rbi-panel-recommendations-credit-positive-for-mortgage-backed-securities-1569223353508.html
Dated: Sep 23, 2019

• **ICICI Bank To Set Up 450 New Branches This Fiscal:**

ICICI Bank on Monday said it will expand its retail network by adding 450 new branches this financial year. Of these, the bank has made 320 branches operational for customers and in the process, it has crossed the milestone of having 5,000 branches, ICICI Bank said in a statement. Another set of 130 branches will also be customer-ready by the end of the current financial year, it said. With this, the bank has a wide network of over 5,190 branches, extension counters and automated teller machines (ATMs) across the country and nearly half of the branches are in rural and semi-urban areas to facilitate financial inclusion in the country, it said. “We believe that a wide branch network continues to be important for retail banking. It helps deepen the relationship with the customer by serving them a wide range of products and offerings,” ICICI Bank Executive Director Anup Bagchi said. More importantly, the branches offer consultation and guidance to customers for all kinds of banking requirements including mortgages, business banking, other loans and investments, he said. In the past few years, the bank has seen that the nature of business at branches has evolved and customers are now more keen to seek advice and guidance from branches for complex transactions, loans and investments. For simple transactions, they prefer doing it over digital channels like internet and mobile banking, it said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/icici-bank-to-set-up-450-new-branches-this-fiscal/articleshow/71258666.cms
Dated: Sep 23, 2019
• **PNB Housing Fin's Effective Tax Rate To Come Down By 8-9% Points:**

PNB Housing Finance on Monday said the company's effective tax rate will come down by 8-9 percentage points following the government's decision to slash corporate tax rate. For 2018-19, the effective tax rate of PNB Housing Finance on consolidated basis was 31.30 per cent. On September 20, Finance Minister Nirmala Sitharaman announced slashing the basic corporate tax rate for domestic companies to 22 per cent from 30 per cent. The effective tax rate for domestic companies reduced to 25.17 per cent from 34.94 per cent inclusive of surcharge and cess. “Considering the tax reductions per the announcement, the expected reduction in the effective tax rate for PNB Housing can be anywhere between 8-9 per cent,” it said in a regulatory filing. As per the government's latest investment boosting measure, new manufacturing companies that start production on or before March 31, 2023 and are incorporated on or after October 1, 2019 will have an option to pay tax at 15 per cent if they do not avail any exemption/incentive. The effective tax rate for such companies will be 17.01 per cent, inclusive of surcharge and cess. This is a very positive move and is expected to result in enhanced economic activity along with the reduction in tax rates, PNB Housing Finance said. Company's Managing Director Sanjaya Gupta said a slew of measures have been taken by the government to revive the economy and housing finance sector. “This includes measures like relaxation in minimum holding period to six months for securitization, additional liquidity support to NHB for further lending to HFCs, on-lending of housing loans up to Rs 20 lakh to be qualified under PSL (priority sector lending), relaxation in ECB end use and fund for real estate sector, which are all positive for housing finance sector,” Gupta said. These measures will boost liquidity in HFCs (housing finance companies) and shall immensely help in enhancing the sector's fund position and further strengthen the asset liability management. Moreover, the reduction in corporate tax rate will be a big boost to the capital base and help revive the growth and employment generation across all sectors, Gupta added. Stock of the company traded 2.43 per cent down at Rs 663 on BSE.


Dated: Sep 23, 2019

• **PSB Strike, Weekend To Hamper Cash Withdrawals:**

Customers of Public Sector Banks (PSBs) are likely to face hassles in cash withdrawals at bank branches and ATMs, as an impending bank strike is going to coincide with planned monthly non-working day and the weekend. A strike called by state-run lenders' unions against the mega PSB merger will commence on September 26, Thursday, and end on September 27, Friday. This strike, along with the planned monthly non-working day of fourth Saturday on September 28 and Sunday on September 29, will effectively shut PSB operations for four consecutive days. The strike call has been given by four officers' unions of the banking industry All India Bank Officers' Confederation (AIBOC), All India Bank Officers’ Association (AIBOA), Indian National Bank Officers Congress (INBOC) and National Bank Officers’ Organization (NOBO).

Source: [https://economictimes.indiatimes.com/industry/banking/finance/banking/psb-strike-weekend-to-hamper-cash-withdrawals/articleshow/71262947.cms](https://economictimes.indiatimes.com/industry/banking/finance/banking/psb-strike-weekend-to-hamper-cash-withdrawals/articleshow/71262947.cms)

Dated: Sep 23, 2019
• Bank Unions Defer 2-Day Strike; Operations To Be Normal On September 26-27:

In view of the consideration of the positive and workable solution by the Finance Secretary, the 48 hours strike stands deferred, the joint statement by the unions said. Officers’ unions of public sector banks have deferred the proposed two-day strike following an assurance from Finance Secretary Rajiv Kumar to look into their concerns. Four unions of bank officers had threatened to go on a two-day strike from September 26 to protest against the consolidation of 10 state-run lenders into four. “Finance Secretary Rajiv Kumar was positive in formation of a committee consisting of all concerned to address the issues arising out of the proposed merger of 10 banks including preserving the identity of all the banks. An appeal was made to us to revisit our strike call in view of the discussions,” a joint statement said issued on Monday. In view of the consideration of the positive and workable solution by the Finance Secretary, the 48 hours strike stands deferred, it said. As a result, normal banking activity would not be affected. The Indian Banks’ Association (IBA) had informed SBI that the All India Bank Officers’ Confederation (AIBOC), All India Bank Officers’ Association (AIBOA), Indian National Bank Officers’ Congress (INBOC) and National Organisation of Bank Officers (NOBO) had given a call for a pan-India strike by bank employees on September 26 and 27, 2019. The government on August 30 announced its mega consolidation plan to bring down the total number of PSBs to 12 from 19 in 2017 in a bid to make them global-sized banks. As per the plan, United Bank of India and Oriental Bank of Commerce are to be merged with Punjab National Bank, making the proposed entity the second largest public sector bank (PSB). Syndicate Bank is to be merged with Canara Bank, while Allahabad Bank will be merged with Indian Bank. Andhra Bank and Corporation Bank will amalgamate with the Union Bank of India. Earlier this year, Bank of Baroda merged Vijaya Bank and Dena Bank with itself to become the second largest public sector lender. SBI had merged five of its associate banks - State Bank of Patiala, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Travancore and State Bank of Hyderabad and also Bhartiya Mahila effective April 2017.


Dated: Sep 23, 2019

• RBI Enforces Restrictions On PMC Bank, Customers Clamor For Their Deposits:

Chaos reigned outside the Sion branch of the Mumbai-based Punjab and Maharashtra Cooperative Bank (PMC Bank) on Tuesday as depositors thronged to withdraw their money after the Reserve bank of India put restrictions on the bank. Police personnel were seen manning the gate of the branch to ensure that the crowd doesn’t turn violent. Meanwhile, branch officials were replying to queries, trying to assuage concerns of the harrowed customers. While the bank has stopped all transactions, they are allowing customers to take out their belongings from the locker in lots. Meanwhile at the bank’s Marol branch, the crowd comprising mostly elderly people turned violent, threatening to detain bank officials at the branch. The crowd had ‘gheraoed’ the branch manager, seeking clarity on their deposits. “We have a marriage in the family and all our deposits are in a single account with the bank,” said
one of the depositors. Satish Maruti Patik, a 44-year old customer of the bank for the past 20 years, said, “My Rs. 60 lakh is stuck with the bank. I had deposited Rs. 2 lakh just two days ago. The bank is saying we could get the money back in 1 month or 2 months or even 6 months. But I wonder if we will get our money back at all,” he said. Like Patil, Rs. 11,000 crore worth of depositors’ money is stuck at the urban-cooperative bank for the next few months. In a statement issued late on Monday, the Reserve Bank of India (RBI) restricted withdrawal of money from the customers’ account to Rs. 1000 for six months, “According to the directions, depositors will be allowed to withdraw a sum not exceeding Rs. 1,000 of the total balance in every savings bank account or current account or any other deposit account by whatever name called, subject to conditions stipulated in the RBI Directions.” The RBI, however, said the issue of directions to PMC Bank should not be construed as cancellation of banking licence by the central bank. PMC Bank can continue to undertake banking business with restrictions till further notice/instructions from RBI. The Reserve Bank may consider modifications of these directions depending upon circumstances. The restrictions will remain in force for a period of six months from the close of business of the bank on 23 September, said RBI. Further, according to the RBI’s restrictions, PMC Bank will also not be able to grant or renew any loans and advances, make any investment, incur any liability including borrowing of funds and accept fresh deposits, disburse or agree to disburse any payment whether in discharge of its liabilities and obligations, without prior approval in writing from the central bank. The bank’s managing director Joy Thomas said the lender has been put under restriction due to irregularities disclosed to RBI. According to March end data, the bank’s non-performing assets as a percentage of total assets stood at 3.96% and overdues at Rs. 331 crore. “As the MD of the Bank, I take the responsibility and assure all the depositors that these irregularities will be rectified before the expiry of 6 months. All efforts are made to remove the restrictions by rectifying the irregularities,” Thomas assured.

Source: https://www.livemint.com/industry/banking/rbi-enforces-restrictions-on-pmc-bank-customers-clamour-for-their-deposits-1569318235460.html
Dated: Sep 24, 2019

• Demand For Vehicle Loan Shrinks:

Bank loans to finance vehicle purchases in India has slipped to 4.9% year-on-year at the end of July, less than half of the growth recorded in the year-ago period, indicating a slump in demand for cars and trucks which is in sync with the overall private consumption slowdown. The automobile sector contributes 6.5% to India’s gross domestic product with strong backward linkages with sectors such as steel, plastic, rubber and auto parts. According to Reserve Bank of India’s latest data, the slowdown in demand has been more pronounced in the first quarter of FY20 with outstanding retail vehicle loans shrinking 0.9% to Rs 200419 crore from Rs 202154 crore at the end of March. Last year, same period, banks’ vehicle loans grew 11.2%. “Fall in vehicle loan is due to lower auto sales. We don’t see much substitution by NBFCs as they also have problems,” said Madan Sabnavis, chief economist at CARE Ratings. “Demand remains low due to lower income growth and slow job creation, besides onerous new registration and insurance norms,” he said. Interestingly, banks loans to vehicles, vehicle parts and transport equipment sector grew 10.2% year-on-year to Rs 82728 crore. State
Bank of India’s group chief economic advisor Soumya Kanti Ghosh said in a report last month that consumption slowdown is more entrenched and has dipped by Rs 1.5 lakh crore in the first quarter compared with the preceding March quarter. The private final consumption expenditure has slumped to 3.1% in Q1, the weakest level since Q3FY15 when it grew by a mere 2%, according to State Bank of India’s economic report released on August 30. In a separate report, Ghosh said the slowdown in the automobile sector is not just restricted to India but is spread across other nations. “Studies done in the sector show that auto sales in Asia-Pacific are expected to fall 2-3.5% this year after declining roughly 1% in 2018. Besides India, China, Indonesia, Malaysia are also going through auto slowdown,” the report said. Auto sales in the Asia-Pacific, estimated at around 43-44 million vehicles in the previous year, are expected to drop 2-3.5% this year. Even in Germany, automobile production dipped 12% in the first half of the year, owing to decline in car sale in the US and Canada.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/demand-for-vehicle-loan-shrinks/articleshow/71282208.cms

Dated: Sep 24, 2019

- **RBI Imposes Restrictions On PMC Bank, Withdrawal Restricted To Rs 1,000 Per Account:**

The Reserve Bank of India has ordered Punjab and Maharashtra Co-operative (PMC) Bank not to do any business for six months and capped depositor withdrawals at Rs 1,000, throwing the lives of thousands of traders, self-employed and daily wage earners into disarray. The regulator has also appointed an administrator for the bank. Defaults appear to have surged in the past six months amid tight economic conditions and some lumpy loans to real estate companies located in the financial capital that turned sour, making it difficult for the bank to meet its commitments, two people familiar with the matter said. The sudden freeze ahead of the festival season is set to upset calculations of customers and deal a big blow to a state that is heavily reliant on the cooperative bank structure to service millions of customers in its villages. The development comes at an awkward time for the state government in Maharashtra, the BJP, and other political parties such as the NCP and the Congress, which are known to have a strong support base among the customers of cooperative banks. The state goes to polls in October. “Depositors will be allowed to withdraw a sum not exceeding Rs 1,000 of the total balance in every savings bank account or current account,” RBI said in a statement. “Without prior approval in writing from the Reserve Bank, (PMC Bank) will also not be able to grant or renew any loans and advances, make any investment, incur any liability including borrowal of funds and acceptance of fresh deposits,” the statement said. PMC’s collapse is unlikely to impact financial markets or other private or public sector banks as co-operative banks have meagre dealings in money markets as they largely depend upon deposits. Savings of up to Rs 1 lakh is guaranteed by the deposit insurance but anything beyond that would be repaid depending on the recovery under the RBI-appointed administrator. “I would like to tell the public that there is no need to get panicky because we have DICGC (Deposit Insurance and Credit Guarantee Corporation) cover through which deposits of up to Rs 1lakh are covered,” JB Bhoria, the RBI-appointed administrator told ET Now. “Besides, we have our own assets which are liquid. We are trying our best
to sort out the situation. Prima facie there appears to be some NPAs, but I am told that they are all secured by the assets...” The collapse appears to have been sudden and is shrouded in mystery with the bank management voluntarily approaching the regulator to initiate the action instead of the regulator initiating the process which is the practice. “Normally, the RBI initiates the action after a regulatory supervision exposes wrongdoing and if it feels that the financials are weak for it to continue,” said a person familiar with operations. “Here, the bank came to the RBI and demanded that it freeze the business so that things could be brought back to order, if at all it could.” Industry experts say there were also mismatches between the data uploaded on the RBI server and manual entry data maintained by the bank. Speculation was rife that the bank had an exposure of Rs 400 crore to one of the real estate firms, HDIL, which filed for bankruptcy recently. PMC Bank’s chairman S Waryam Singh was on the board of HDIL in 2015. Customers took to Twitter to express their disappointment. “And what should the account holder do on receiving this message. Rs 1,000 is all that we can withdraw over 6 months. We stopped keeping cash at home because you encouraged online transaction and now we can’t even withdraw our own hard-earned money,” tweeted Amruta Lokhande, a depositor with the bank. Cooperative banks are the weakest link in the financial system with their supervision and administration falling within the purview of both state governments and the RBI. At the end of March 2019, 1,542 urban cooperative banks were operating in the country, out of which 46 had negative net worth and 26 were under RBI administration. The year before, 39 had negative net worth and 20 were under RBI administration. While the central bank cannot take any action unilaterally, it suggests a plan of action to the state government and leaves it to the discretion of the state on whether the lender should continue to operate or wind up. “PMC Bank has been put under regulatory restriction under Section 35A of the Banking Regulation Act for a period of six months due to irregularities disclosed to RBI,” the bank’s managing director Joy Thomas said in a message to depositors. “I take responsibility and assure all the depositors that these irregularities will be rectified in six months. I know it is a difficult time for all of you. We assure (you) that we will definitely overcome this situation and stand strong.” PMC Bank, a cooperative bank with 137 branches and at least 51,000 members spread over seven states including Delhi and Punjab, has deposits of about Rs 11,617 crore, making it among the country’s top five urban co-operative banks. Its bad loans almost doubled to 3.76% of gross advances by March 2019, from 1.99% a year earlier. PMC Bank’s membership shrunk to 51,000 in March this year from 62,000 a year earlier. 


Dated: Sep 25, 2019
• **As NPA Resolution Crawls, Banks Stare At Spike In Credit Cost:**

With slower pace of resolution of bad loans, banks are staring at a spike in their credit cost, which is set to rise in the range of 1.9-4.6 percent for the second half of the current fiscal, says report. In its earlier assessment, India Rating had estimated the system-wide credit cost floor at 1.9 percent and capped it at 4.4 percent for the second half of FY20. “Given that the pace of resolutions has slowed down significantly since then, credit cost is expected to be marginally higher than earlier estimate, while the floor will be irrelevant. On a bottom-up basis, credit cost is set to rise to 4.6 percent for the system in H2,” an India Rating report said Tuesday. For the second half, it has revised upwards the credit cost estimate for state-run banks by 30 basis points to 5.2 percent, while for private sector banks it is pegged at 3.2 percent-at the same level as the previous estimate. “Any pick up in stressed asset resolutions may result in lower net credit cost,” it added.

The agency said material incremental NPA generation for fiscal 2020 and 2021 may come from the agriculture and MSME sectors. With the RBI giving forbearance to MSMEs until March 2020, some of the incremental stress in this segment can show up in FY21, unless the economy picks up, the report said. Muted rural income growth, along with announcements or expectations of farm loan waivers continue to weigh on asset quality of farm loans. The agency remains cautious on the retail loans where some banks have increased provisioning as a precautionary measure following reports of rising delinquencies. “We believe there will be further moderation in retail loans in FY20, given the consumption slowdown across segments including housing and auto,” the report said. Even the unsecured loans, which include credit cards, education loans and personal loans have seen a moderation to 18 percent over FY19. The agency believes that the slowdown in the near-term can partially be offset by market share gains for banks in the overall retail segment as NBFCs are still facing deep liquidity challenges. The report expects the Rs 70,000 crore capital immediate allocation for public sector banks to be adequate to provide for existing stress, given the slow pace of corporate stressed resolutions. The agency sees return on assets of state-run banks & their private sector peers is expected to increase by up to 10 bps and 30 bps, respectively, as a result of the cut in corporate taxes.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/as-npa-resolution-crawls-banks-stare-at-spike-in-credit-cost/articleshow/71281336.cms
Dated: Sep 25, 2019

• **Bank Loans Contract For Second Time In Two Years This August:**

Bank loans contracted for the second time in three years in April-August by nearly a percentage point or over Rs 90,000 crore reflecting the low credit demand and caution by banks after bankruptcy laws came into play to resolve bad loans. Incremental bank loans between April and August this year contracted by Rs 91030 crore, compared to a growth of Rs 1.5 lakh crore in the same period a year ago, latest Reserve Bank of India data showed. “It is reflective of two things. One, companies are not borrowing much due to low investment” said Madan Sabnavis, chief economist at Care Ratings. “Second, banks are not keen to lend to industry and prefer retail, where there is an improvement. Overall, it reflects low growth tendencies” An analysis of the loan growth pattern during April-August
over the last ten years shows that credit contraction in the period are rare, excepting April-August 2017, when it contracted by Rs 92,700 crore. This implies that, after the enactment of bankruptcy laws in 2016, enabling banks quicker resolution of bad loans, lenders have been cautious extending loans. “Bank balance sheets tend to spike up in March and September end. Post-March, we typically have a contraction through the lean season. September end is when we should see a busy season spike,” said Ananth Narayan, assistant professor of finance at S P Jain Institute of Management Studies. “I think what is worrisome is the dip in the year-on-year growth numbers, which are more comparable” he added. NBFC lending has dipped last September after the crisis at infra-lender IL&FS was unearthed. Overall bank lending on an year-on-year basis has actually dipped, both in percentage terms to 10.2% from 13.4 percent in the same period a year ago, as well as in absolute terms to Rs 9lakh crore, compared to Rs 10.4 lakh crore the year ago. “This is probably a combination of both the general economic slowdown, as well as banks reluctance to open the spigots,” Narayan said. But the sops that the government announced on Friday, including a steep reduction in corporate taxes aimed at reviving the economy, could lift credit demand. “I think the next two-three months will be interesting and critical. Need to see if lending picks up, post the slashing of the corporate tax rates and the promise of shamiana banking into Diwali” Narayan said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/bank-loans-contract-for-second-time-in-two-years-this-august/articleshow/71294996.cms
Dated: Sep 25, 2019

- **Indian Bank To Link Retail & MSME Loans To RBI’s Repo Rate From October 1:**

State-owned Indian Bank on Wednesday said it has decided to link all new floating rate retail as well as MSME loans with the Reserve Bank of India’s (RBI) repo rate, effective October 1. The RBI has mandated all banks to link their loans with external benchmarks, such as repo, aimed at faster transmission of rate cuts effected by it to consumers. “In conformity with the RBI guidelines dated September 04, 2019, on External Benchmark Based Lending, the bank has decided to link all new floating rate loans to personal or retail segment and new floating rate loans to micro and small enterprises (MSE), to Reserve Bank of India policy Repo Rate with effect from October 1, 2019,” according to a BSE fling. Several banks, including State Bank of India, have already announced to link their loan products with external benchmarks from next month.

Dated: Sep 25, 2019

- **PMC Says Has Enough Liquidity, Depositors’ Money Fully Safe:**

Allaying fears of the depositors and customers, Punjab & Maharashtra Cooperative Bank (PMC), which is under RBI management now, said it has enough liquidity to meet all liabilities and every penny of the public is secure. Asserting that all its loans are fully secured, the management admitted that one large account-HDIL—is the sole reason for the present crisis leading to the regulatory action Tuesday when RBI superseded its management and placed it under an administrator for the next six months. The regulator has also capped cash withdrawal at
Rs 1,000 per customer during this period and also banned the bank from any fresh lending during this period. Though the bank’s now suspended managing director Joy Thomas did not disclose the exposure to HDIL, which he described as the largest and one of the oldest customers, he said all other accounts are safe and fully-secured. “All other loans are more than fully-secured and there is no need for any customer to panic,” Thomas told in an interview Wednesday evening. “We have enough liquidity and back-up securities for all what we have lent. As a cooperative bank, we never do unsecured lending and our loan coverage ratio has always been 100-110 percent,” Thomas said. He said the bank has a cash liquidity of around Rs 4,000 crore in the form of SLR (statutory liquidity ratio) and CRR or cash reserve ratio, while its liabilities are around Rs 11,600 crore. One of the reasons for the RBI action is the highly under-reported NPAs, which according to sources are in high double-digits, while as per its FY19 balance sheet, it stood at a low 2.19 percent, which though was more than double of 1.05 percent in FY18. Thomas admitted that the problem rose because of under-reporting of NPAs from the HDIL account. The slum redevelopment company, which has landed in cash crunch, has already gone to the bankruptcy now, has been delaying payments for the past few years. “The divergence was only on HDIL. There was a difference between what we were reporting and what the actual numbers were. There was a delay on repayment for the last two-three years and we have been under-reporting that,” Thomas admitted. He, however, declined to quantify its exposure to HDIL, saying the loan is fully-secured. Explaining that the problem is the delayed repayments by HDIL, he is sure of returning to normalcy sooner than later as the loan is fully-secured and the bank is in talks with HDIL for sell of its assets and recover the dues. “We have been working with HDIL for the past many months and we know they are in advanced stages of monetizing their assets. That’s why we are saying that we will be out of the problem soon,” he said. Describing HDIL as an old customer and the largest and has been supporting the bank for years, Thomas said, “when we were a single unit bank, they supported us, they also supported us when we were facing problems. When nobody was depositing even a penny with us, they had put in Rs 13 lakh way back in 1988. “Nearly 40-50 percent of our turnover used to come from them only. We have earned a lot of profit from them...otherwise how can a young bank like ours would have grown and come among the top five,” he averred. Thomas said HDIL has been facing problems for the last three-four years after they had lost some of the projects, including the their key slum rehabilitation projects near the Mumbai airport and other bankers stopped lending to it. However, he exuded confidence that the bank will be out of the regulatory restrictions much ahead of the RBI’s six months period, say in two-three months. He said the focus is to safeguard the interest of small depositors as it is the festive season and they would want money. “We have already approached the RBI for increasing the withdrawal limit to Rs 15,000. We have enough liquidity to serve that demand,” Thomas said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/pmc-says-has-enough-liquidity-depositors-money-fully-safe/articleshow/71300348.cms
Dated: Sep 26, 2019

• Bank Credit Grows By 10.26%, Deposits 10.02%:

Bank credit and deposits grew at 10.26 per cent and 10.02 per cent to Rs 97.01 lakh crore
and Rs 127.22 lakh crore, respectively, in the fortnight ended September 13, according to the recent RBI data. In the year-ago fortnight, banks advances were at Rs 87.98 lakh crore and Rs 115.63 lakh crore. In the previous fortnight ended August 30, 2019, bank loans increased by 10.24 per cent to Rs 96.80 lakh crore and deposits by 9.73 per cent to Rs 127.80 lakh crore. In July, the non-food bank credit increased by 11.4 per cent on year-on-year (y-o-y) basis, as compared with an growth of 10.6 per cent in July 2018. Advances to the services sector decelerated to 15.2 per cent in the month from 23 per cent in the year-ago period. Credit to agriculture & allied activities rose by 6.8 per cent as compared with an increase of 6.6 per cent in the same month last year. Loans to industry were up by 6.1 per cent in July 2019 as compared with an increase of 0.3 per cent. Personal loans increased by 17 per cent in July 2019 as compared with an increase of 16.7 per cent in July 2018, RBI data had shown.

Dated: Sep 26, 2019

- **Lakshmi Vilas Bank Directors Probed For Alleged Fraud:**

The police have opened a probe into the directors of Lakshmi Vilas Bank after a customer accused them of misappropriating funds, the bank said late on Thursday. Indian financial services company Religare Finvest (RFL) has accused Lakshmi Vilas of misappropriating Rs 790 crore ($111.4 million) it kept with the bank as a fixed deposit, according to a copy of a complaint filed with the Economic Offences Wing of the New Delhi police that was reviewed by Reuters. “It appeared that there was a wider conspiracy to illegally misappropriate RFL’s funds and LVB was at the center of it,” said the complaint, which was filed against the directors of Lakshmi Vilas. The directors face charges of cheating, breach of trust, misappropriation and conspiracy, Chennai-based Lakshmi Vilas said in a statement filed to the Bombay Stock Exchange and the National Stock Exchange of India on Thursday, adding it was considering taking “appropriate legal measures.” The bank’s shares fell nearly 5% on Friday. Reuters was not immediately able to contact the directors of Lakshmi Vilas Bank or RFL for comment. It was unclear how many directors were under investigation. The police investigation is occurring as the domestic banking sector has been roiled by defaults from housing finance companies and the central bank has taken charge of a leading co-operative lender this week. India’s banks are also grappling with roughly $150 billion in stressed assets and the country’s non-banking finance companies are struggling with liquidity pressures. Lakshmi Vilas said earlier this year it would merge operations with housing finance firm Indiabulls Housing Finance Ltd (IBHF) in a share-swap deal. Indiabulls did not immediately respond to a request for comment on potential implications for the merger. One source at Lakshmi Vilas, who asked to remain anonymous, said the merger wouldn’t be affected by the investigation. “RFL had first raised the issue in May 2018 and the merger talks started well after that. As a result they are aware about it and it shouldn’t derail the talks,” the source said. IBHF did not immediately respond to a request for comment. Its shares were trading 3% lower on Friday.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/lakshmi-vilas-bank-directors-probed-for-alleged-fraud/articleshow/71332285.cms
Dated: Sep 27, 2019
• **RBI Initiates Prompt Corrective Action For Lakshmi Vilas Bank After Directors Probed For Alleged Fraud:**

The Reserve Bank has initiated Prompt Corrective Action (PCA) against Lakshmi Vilas Bank (LVB) due to high level of bad loans, lack of sufficient capital to manage risks and negative return on assets for two consecutive years, the private sector lender said on Saturday. The RBI move comes amidst the Delhi Police's Economic Offences Wing registering a complaint against the board of LVB alleging cheating and misappropriation of funds. The regulatory action may cast doubts over the proposed merger of Indiabulls Housing Finance with LVB, which is awaiting RBI nod. The Delhi High Court on Friday agreed to hear a petition alleging Indiabulls gave loans worth crores of rupees to shell companies. In a regulatory filing, LVB said RBI has taken the action “on account of high net NPAs, insufficient Capital to Risk (Weighted) Assets Ratio (CRAR) and Common Equity Tier 1 (CET 1), negative return on assets for two consecutive years and high leverage.” PCA was initiated after an on-site inspection, under the risk-based supervision, was carried out for the year ended March 31, 2019. “RBI has also advised the Bank on the restrictions put in place and the actions to be taken by the Bank, which the Bank has taken note of for necessary compliance, with progress to be reported on a monthly basis to RBI,” it added. For FY19, the bank's net NPA stood at 7.49 per cent, capital adequacy ratio was at 7.72 per cent and its return on assets was (-) 2.32 per cent. It had reported a net loss of Rs 894.10 crore for 2018-19. PCA is aimed at improving the performance of the bank and will not have any adverse impact on the day-to-day operations, including acceptance/repayment of deposits in the normal course, LVB said. Under PCA, banks are mandated to cut lending to corporates and focus on reducing the concentration of loans to certain sectors. They are also restricted from opening new branches and paying dividends. Banks currently under PCA are United Bank of India, Indian Overseas Bank, Central Bank of India, IDBI Bank and UCO Bank. LVB’s Chief Executive Parthasarathi Mukherjee had quit in August citing personal reasons. Based on a complaint by financial services company Religare Finvest Ltd (RFL) which accused the bank of misappropriating Rs 790 crore it kept with the lender as a fixed deposit, the Delhi Police’s Economic Offences Wing (EOW) had on September 23 registered a first information report (FIR) against directors of the bank for alleged cheating, criminal breach of trust, criminal misappropriation and criminal conspiracy. Calling the move a “desperate measure”, the private lender had on Friday stated that the registration of the police complaint does not mean anything at this stage and that the bank will cooperate with the investigating agencies and regulatory authorities. “The bank is committed to cooperate with the investigating agencies and regulatory authorities apparently in order to bring out the malicious attempts of RFL to mislead the public to cover up massive fraud indulged by their own promoters, employees, group companies,” it had said.


Dated: Sep 28, 2019

• **FSDC Mulls Upon Revisiting Laws To Detect Early Signals Of Instability:**

The FSDC meeting was chaired by Reserve Bank Governor Shaktikanta Das and attended by members of the Sub-Committee.
The Financial Stability and Development Council (FSDC) of the RBI on Friday reviewed recent developments in global and domestic economies and deliberated upon revisiting some existing laws to detect early warnings of instability. The FSDC Sub-Committee discussed measures to promote interest and competition in stressed asset markets, enhance the scope of Legal Entity Identifier (LEI) to more effectively monitor group exposures and issues relating to credit rating agencies and audit quality. “The Council also mulled upon the role of credit rating firms and stressed asset market development. The role of credit rating firms has been under the RBI and the SEBI scanner after a spate of defaults by highly rated companies, especially non-banking finance companies (NBFCs). “The Sub-Committee also deliberated upon measures to strengthen the systems against frauds and to revisit the framework for early warning signals,” said a statement from the Reserve Bank of India. The meeting was chaired by Reserve Bank Governor Shaktikanta Das and attended by members of the Sub-Committee. Though not a statutory body, the FSDC is India’s initiative to strengthen and institutionalise the mechanism of maintaining financial stability, financial sector development and inter-regulatory coordination along with monitoring macro-prudential regulation of economy. No funds are separately allocated to the Council for undertaking its activities.


Dated: Sep 28, 2019

- **DHFL Lenders Led By SBI Expected To Complete Debt Resolution Plan Quickly:**

  State Bank-led lenders of crisis-hit Dewan Housing Finance Ltd (DHFL) are expected to complete a debt resolution plan quickly so that fresh funds start flowing in, sources said on Sunday. “The banks led by SBI, are expected to move quickly to complete the debt resolution proposal so that fresh lending starts to move into the company and turnaround of a systemically large retail financial enterprises is done smoothly,” they said. Earlier on Saturday, the company had announced the appointment of Vaijinath MG, a former Chief General Manager of State Bank of India as its CEO, and also floated draft debt resolution plan according to which, it has assumed a price of Rs 54 per share for debt conversion into equity by lenders to acquire 51 per cent in the company. The plan is subject to approval of investors and bankers. After the appointment of the CEO, the firm is set to get a CFO and additional nominee directors on board, sources said. The company wants to have a timely execution of the debt resolution plan, and especially the promoters have shown resolve and commitment over the last few months, they added. The debt-laden housing finance company has sold its strategic investments, even in core retail financial services firms like Avanse, Aadhar, DHFL Pramerica AMC to bring liquidity. DHFL said, the company, in the past 12 months has repaid obligations of nearly Rs 45,000 crore, which is nearly 40 per cent of its current balance sheet size. The company is expecting consent of its shareholders by Monday for expanding the board capacity to induct additional nominee director/s. Once these take place, the company will be run by the team of professionals including the chief experience officers (CXOs) already in place and the management will report to the board. As on July 6, 2019, company's total debt outstanding was Rs 83,873 crore of which Rs 74,055 crore is secured loans and Rs 9,818 crore unsecured.
The Co-Op Crisis, How 1,500-Odd Urban Cooperative Banks Are Being Run And Regulated:

Last Friday, no one turned up to deliver milk at Avillion Greenfields, a cooperative housing society in Mumbai. The delivery boys were apparently unable to withdraw enough cash from their bank to buy milk supplies. Their savings are currently stuck at Punjab Maharashtra Cooperative (PMC) Bank, which has been put under restrictions by the Reserve Bank of India for refusing to recognise its bad loan situation. Withdrawals from bank accounts have been restricted.

It’s not just the milk boys. Raju Agarwal, civil contractor who lives in Avillion Greenfields, has fixed deposits of nearly Rs 50 lakh in the same urban cooperative Bank. Even the two Avillion Greenfields housing societies at Jogeshwari East together have deposits of nearly Rs 3.5-crore in the crisis-hit lender.

“Nearly 200 residents in our complex have deposited money in PMC Bank. And for the last few days, there has been a pall of gloom all around,” Agarwal, 57, tells ET Magazine.

The lender, with deposits in excess of Rs 11,000 crore, appears not to have adequately reported the size of its non-performing assets, especially a Rs 2,500 crore exposure to real estate company HDIL Group, which has been taken to the bankruptcy courts by creditors. The plight of PMC Bank depositors across Maharashtra, Karnataka, Goa, Gujarat, Andhra Pradesh, MP and Delhi and the impunity with which its officials flouted norms raises questions about management of all 1,500-odd urban cooperative banks with total deposits of nearly Rs 4.5 lakh crore.

Urban cooperative banks are divided into two tiers based on their area of operation. While only 31% of them are in tier-2 category, they account for more than 85% of deposits and advances. Many small cooperative banks and cooperative societies also keep their deposits in large urban cooperative banks. Agarwal says the urban cooperative banks often offer slightly higher interest rates than state-run banks and aggressively seek deposits from housing societies. “The biggest worry is that this [crisis at PMC Bank] can have a cascading effect,” says Arvind Khaladkar, who during his time as chairman of Pune-based Janata Sahakari Bank, was credited with turning around the cooperative lender.

He says nearly 130 smaller banks have deposits at PMC Bank, and if the lender is unable to return their money, all these small banks will have to mark their deposits as NPAs. “Cooperative banks operate on thin margins and this NPA will mean they will all be in loss, triggering a wider crisis,” the retired banker told ET Magazine. Soon after the RBI appointed an administrator for PMC Bank last Tuesday, angry depositors gathered outside different branches to get their money out. By Thursday, RBI increased the cash withdrawal limit from Rs 1,000 to Rs 10,000. Meanwhile, several first information reports have been filed against the bank’s top management. On Friday, even as the bank’s deposed managing director Joy Thomas held a press conference in Mumbai, assuring safety of deposits, many of the depositors met near a branch in Andheri to discuss how to bring the management and the board to book. While all the focus is now on PMC Bank, Khaladkar refers to a larger issue — of how cooperative banks struggle to invest the funds raised as deposits and end up extending risky loans. “At one time, PMC Bank had lower deposits than Janata Sahakari. But they overtook us. When you
grow fast, you need to also deploy that cash fast. That is when mistakes happen." The bank's books also show a sudden spurt in term deposits. While its term deposits grew by 11.6% in FY17 and 10.96% in FY18, in FY19, the deposits jumped by 18.9%, crossing Rs 9,325 crore. Thus, the real growth in FY19 was double that of FY18. In this period, the bank's total deposits grew by 16.89% to Rs 11,617 crore. Former BJP MP Kirit Somaiya, who first registered a police case against PMC Bank and also met RBI deputy governor NS Vishwanathan over the issue, says: “This is a horrible situation — a clear financial fraud. The main borrower of PMC, HDIL, is already insolvent. There has to be an immediate relief for depositors and rehabilitation for the bank.” Urban cooperative banks are caught in a time warp, he says. “They have assets like branch networks, but today when banks are going fully online, what is the value of the branches?” The PMC Bank crisis has also broken out at a time when most cooperative banks and cooperative housing societies are rushing to hold their annual general meetings (AGM) before the September 30 deadline. Though the AGM of PMC Bank has been postponed amid the ongoing crisis, fireworks are likely at meetings of other urban cooperative banks.


- **Four PSBs Carry On Their Search For CEOs:**

The process to hire the chief executives and managing directors at Bank of India, Bank of Baroda, Canara Bank and Punjab National Bank is ongoing, even as the government has announcement the amalgamation of 10 state-run banks to create four larger lenders. The searches commenced before Finance Minister Nirmala Sitharaman announced the amalgamation in August, bringing down the total number of state-run banks to a dozen from 27 in 2017. Two of these four - PNB and Canara Bank - are getting merged, but the search for the top jobs at both lenders is ongoing separately. The CEO/MD posts will become vacant on September 30 at PNB, in mid-October at Bank of Baroda and in January at Canara Bank. At Bank of India, the post is currently vacant. September 23 was the deadline to apply. The Bank Board of Bureau, which conducts the selections for top jobs at state-run banks, has received about 60 applications for the MD and CEO positions at these four banks, a person privy
to the selection process said. People from public and private sectors have applied almost in equal numbers, he said. A few of those who have applied for the positions are either the heads of operations or even CEOs or MDs of private banks, the person said, but did not name anyone. A shortlist of eligible candidates is being prepared and interactions with them will begin in the first week of October with a panel set up by the Bank Board of Bureau. The Korn Ferry Hay Group will conduct a leadership quality profile of the shortlisted candidates.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/four-psbs-carry-on-their-search-for-ceos/articleshow/71367292.cms
Dated: Sep 30, 2019

• Canara, Corporation Bank, Others Introduce Repo Linked Loan Products:

Further, the bank announced its decision to link interest rate on savings accounts with balance of Rs 25 lakh and above. However, interest rate to be paid for such accounts is presently pegged at 4 per cent level offered by the bank. Rushing to meet the RBI deadline of October 1, many public sector lenders like Canara and Corporation Bank announced launch of repo rate linked lending rate for faster transmission of interest rate cut to borrowers. Earlier this month, the Reserve Bank of India (RBI) made it mandatory for banks to link their retail and MSME loans to external interest rate benchmarks effective October 1 for faster transmission of rate cut to borrowers. Without informing the rate, Corporation Bank said it has decided to link all new floating rate loans to retail, personal segment and Micro & Small Enterprises (MSE) to Reserve Bank of India’s policy repo rate. “Our Bank has decided to Repo Linked Lending Rate (RLLR) to Repo Rate + Mark Up that is (5.40 per cent + 2.85 per cent = 8.25 per cent) with effect from October 1, until further review,” Indian Overseas Bank said. As a gesture to small borrowers, the bank has decided to charge Mudra loans up to Rs 50,000 at an interest rate of 8.25 per cent, passing a benefit of 0.25 per cent to these borrowers. Further, the bank announced its decision to link interest rate on savings accounts with balance of Rs 25 lakh and above. However, interest rate to be paid for such accounts is presently pegged at 4 per cent level offered by the bank. In a bid to improve transparency, the RBI directed all banks to link loans to repo rate from October 1. In 2019, the RBI reduced the repo or short-term lending rate by 110 basis points (bps), but the banks have reportedly passed on only up to 40 bps to borrowers.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/four-psbs-carry-on-their-search-for-ceos/articleshow/71367292.cms
Dated: Sep 30, 2019

• PNB Ties Up With NBFCs For Co-Originating Loans Worth Rs 4,000 Crore:

The Punjab National Bank has started tying up with non-banking financial companies (NBFCs) for co-originating loans amounting to Rs 4,000 crore since the last two months and though the lender has not decided if it will link the deposit rates with the RBI repo rates, its retail loan rates will be based on repo rates from October 1, its
Managing Director and CEO Sunil Mehta said on Monday. “We have funded four such portfolios aggregating Rs 4,000 crore in the past two months, and the bank is in the process of identifying more such portfolios,” Mehta said. The stress on NBFCs and HFCs is seen as a key reason for slowdown in the economy, as it has caused reduced credit flow to small businesses. Asked if the PNB will link its deposits and lendings rates to RBI's repo rate as external benchmark linking from October 1, Mehta said: “We have not linked them to the repo rates because sometimes it can create more volatility. We will deliberate issues and take a call.”

Acting upon their commitment to review lending rates in the context of policy rate cuts, all PSBs effected weighted average rate cuts of 27 basis points till August and another 10 effected additional rate cuts ranging from 15 to 5 basis points this month. Further, to enable automatic transmission of externally bench marked rates, 15 PSBs have introduced repo-rate-linked loan products for housing and vehicles, consumer credit, cash credit limits and mortgage-based loans. Already, over 1.08 lakh repo-linked proposals, amounting to over Rs 40,000 crore, have been sanctioned. The remaining three PSBs will be introducing such products by 1 October. At the end of August 2019, overall credit growth in the banking sector stood at 10.1 per cent on a year-on-year basis. On the merger of PNB with Oriental Bank of Commerce and United Bank of India, with PNB as the anchor bank, Mehta said: “Post the merger from April 1 next year, the bank's strength in terms of assets is going to be rising. We have prepared the consolidated balance sheet of the three banks also. This combined balance sheet is giving a better picture than the standalone one. “The government has given us adequate capital support. All these things will enable a stronger balance sheet. Globally, as we know there are large-sized banks. In India, we don’t have a large size bank listed even in the global first 100 banks. So India needs large-sized banks and this amalgamation is a step in that direction.” Emerging from the Nirav Modi fraud shadow, PNB posted a net profit of Rs 1,019 crore for the June quarter against a loss of Rs 940 crore registered in the corresponding quarter of the previous fiscal.


Dated: Sep 30, 2019

• **Bandhan Bank Overcomes All Regulatory Hurdles For Merger With Gruh Finance:**

Bandhan Bank has overcome all the regulatory hurdles for its merger with housing finance company Gruh Finance with the National Company Law Tribunal, Kolkata Bench clearing the scheme of amalgamation. Bandhan Bank has received the certified copy of the NCLT order on Monday, Managing Director Chandra Shekhar Ghosh told ET. “We will now have to fix the merger date. Hopefully all the processes will be completed in a month’s time,” Ghosh said. Merger with Gruh Finance will help the Kolkata-based private lender diversify its loan portfolio of Rs 45400 crore, which is at present heavily skewed towards micro loans with 85% share. Gruh Finance has a loan portfolio of Rs 17700 crore.


Dated: Sep 30, 2019
India’s overall exports (Merchandise and Services combined) in April-August 2019-20* are estimated to be USD 227.36 billion, exhibiting a positive growth of 3.20 per cent over the same period last year. Overall imports in April-August 2019-20* are estimated to be USD 268.24 billion, exhibiting a negative growth of 1.18 per cent over the same period last year.

*Note: The latest data for services sector released by RBI is for July 2019. The data for August 2019 is an estimation, which will be revised based on RBI’s subsequent release.

**Merchandise Trade:**

- **Exports (Including Re-Exports):**
  Exports in August 2019 were USD 26.13 billion, as compared to USD 27.81 billion in August 2018, exhibiting a negative growth of 6.05 per cent. In Rupee terms, exports were Rs. 1,85,881.11 crore in August 2019, as compared to Rs. 1,93,397.12 crore in August 2018, registering a negative growth of 3.89 per cent. In August 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-August 2019-20 was USD 133.54 billion (Rs. 9,31,055.96 crore) as against USD 135.62 billion (Rs. 9,20,240.02 crore) during the period April-August 2018-19, registering a negative growth of 1.53 per cent in Dollar terms (positive growth of 1.18 per cent in Rupee terms). Non-petroleum and Non Gems and Jewellery exports in August 2019 were USD 19.60 billion, as compared to USD 20.76 billion in August 2018, exhibiting a negative growth of 5.61 per cent. Non-petroleum and Non Gems and Jewellery exports in April-August 2019-20 were USD 99.41 billion, as compared to USD 99.17 billion for the corresponding period in 2018-19, an increase of 0.24 per cent.

- **Imports:** Imports in August 2019 were USD 39.58 billion (Rs. 2,81,606.41 crore), which was 13.45 per cent lower in Dollar terms and 11.46 per cent lower in Rupee terms over imports of USD 45.73 billion (Rs. 3,18,043.86 crore) in August 2018. Cumulative value of imports for the period April-August 2019-20 was USD 206.39 billion (Rs. 1,45,73,781.26 crore), as against USD 218.81 billion (Rs. 1,48,56,61.27 crore) during the period April-August 2018-19, registering a negative growth of 5.68 per cent in Dollar terms (negative growth...
of 3.15 per cent in Rupee terms). Major commodity groups of import showing negative growth in August 2019 over the corresponding month of last year are:

- **Crude Oil And Non-Oil Imports**: Oil imports in August 2019 were USD10.88 billion (Rs. 77,380.49 crore), which was 8.90 percent lower in Dollar terms (6.81 percent lower in Rupee terms), compared to USD11.94 billion (Rs. 83,032.28 crore) in August 2018. Oil imports in April-August 2019-20 were USD55.33 billion (Rs. 3,85,835.81 crore) which was 6.34 per cent lower in Dollar terms (3.81 percent lower in Rupee terms) compared to USD59.07 billion (Rs. 4,01,124.26 crore), over the same period last year. In this connection it is mentioned that the global Brent price ($/bbl) has decreased by 18.98% in August 2019 vis-à-vis August 2018 as per data available from World Bank. Non-oil imports in August 2019 were estimated at USD28.71 billion (Rs. 2,04,225.92 crore) which was 15.05 per cent lower in Dollar terms (13.10 percent lower in Rupee terms), compared to USD33.79 billion (Rs. 2,35,011.57 crore) in August 2018. Non-oil imports in April-August 2019-20 were USD151.06 billion (Rs. 10,53,003.24 crore) which was 5.43 percent lower in Dollar terms (2.91 percent lower in Rupee terms), compared to USD159.74 billion (Rs. 10,84,537.01 crore) in April-August 2018-19. Non-Oil and Non-Gold imports were USD27.34 billion in August 2019, recording a negative growth of 9.33 per cent, as compared to Non-Oil and Non-Gold imports of USD 30.15 billion in August 2018. Non-Oil and Non-Gold imports were USD136.53 billion in April-August 2019-20, recording a negative growth of 5.64 per cent, as compared to Non-Oil and Non-Gold imports USD 144.69 billion in April-August 2018-19.

- **Trade In Services**: As per the latest press release by RBI dated 13th September 2019, exports in July 2019 were USD 19.08 billion (Rs. 1,31,313.76 crore) registering a positive growth of 8.72 per cent in dollar terms, vis-à-vis July 2018. The estimated value of services export for August 2019* is USD 19.44 billion.

- **Imports (Payments)**: As per the latest press release by RBI dated 13th September 2019, imports in July 2019 were USD 12.83 billion (Rs. 88,274.17 crore) registering a positive growth of 18.24 per cent in dollar terms, vis-à-vis July 2018. The estimated value of service Import for August 2019* is USD 13.38 billion.

- **Trade Balance**: The trade deficit for August 2019 was estimated at USD13.45 billion as against the deficit of USD17.92 billion in August 2018.

- **Services**: As per RBI's Press Release dated 13th September 2019, the trade balance in Services (i.e. Net Services export) for July, 2019 is estimated at USD6.26 billion.

- **Overall Trade Balance**: Taking merchandise and services together, overall trade deficit for April-August 2019-20* is estimated at USD40.89 billion as compared to USD51.13 billion in April-August 2018-19.
## Merchandise Trade

<table>
<thead>
<tr>
<th>Export &amp; Imports : (US $ Billion)</th>
<th>August</th>
<th>April-August</th>
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<tbody>
<tr>
<td><strong>Exports (Including Re-Exports)</strong></td>
<td></td>
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<tr>
<td>2018-19</td>
<td>27.81</td>
<td>135.62</td>
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<td>2019-20</td>
<td>26.13</td>
<td>133.54</td>
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<td>% Growth 2019-20/2018-19</td>
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<td>-1.53</td>
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<tr>
<td><strong>Imports</strong></td>
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<td>2018-19</td>
<td>45.73</td>
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<td>2019-20</td>
<td>39.58</td>
<td>206.39</td>
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<td>% Growth 2019-20/2018-19</td>
<td>-13.45</td>
<td>-5.68</td>
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<td><strong>Trade Balance</strong></td>
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<tr>
<td>2018-19</td>
<td>-17.92</td>
<td>-83.19</td>
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<td>2019-20</td>
<td>-13.45</td>
<td>-72.85</td>
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<th>Export &amp; Imports (Rs. Crore)</th>
<th>August</th>
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<tr>
<td><strong>Exports (Including Re-Exports)</strong></td>
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<tr>
<td>2018-19</td>
<td>1,93,397.12</td>
<td>9,20,240.02</td>
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<tr>
<td>2019-20</td>
<td>1,85,881.11</td>
<td>9,31,055.96</td>
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<tr>
<td>% Growth 2019-20/2018-19</td>
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<td>1.18</td>
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<tr>
<td><strong>Imports</strong></td>
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<td>2018-19</td>
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<td>2019-20</td>
<td>2,81,606.41</td>
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<tr>
<td>% Growth 2019-20/2018-19</td>
<td>-11.46</td>
<td>-3.15</td>
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<td><strong>Trade Balance</strong></td>
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<td>2018-19</td>
<td>-1,24,646.73</td>
<td>-5,65,421.25</td>
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<td>2019-20</td>
<td>-95,725.30</td>
<td>-5,07,783.09</td>
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## SERVICES TRADE

### Exports & Imports (Services) (US $ Billion)

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<th>July 2019</th>
<th>April-July 2019-20</th>
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<tr>
<td>Exports (Receipts)</td>
<td>19.08</td>
<td>74.38</td>
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<tr>
<td>Imports (Payments)</td>
<td>12.83</td>
<td>48.48</td>
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<tr>
<td>Trade Balance</td>
<td>6.26</td>
<td>25.90</td>
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### Exports & Imports (Services) (Rs. Crore)

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<th>July 2019</th>
<th>April-July 2019-20</th>
</tr>
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<tr>
<td>Exports (Receipts)</td>
<td>1,31,313.76</td>
<td>5,15,865.75</td>
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<tr>
<td>Imports (Payments)</td>
<td>88,274.17</td>
<td>3,36,242.10</td>
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<tr>
<td>Trade Balance</td>
<td>43,039.59</td>
<td>1,79,623.65</td>
</tr>
</tbody>
</table>
TOP BANKING DEVELOPMENTS

• **Bank Of India Launches Festive Offer, Waives Loan Processing Charges:**

State-owned Bank of India (BoI) under its festive offer for retail products is offering home loans at concessional interest rate with no processing charges to woo customers. The bank has waived loan processing charges and will provide home loan at concessional rates, BoI general manager Salil Kumar Swain said. Home loan of up to Rs 30 lakh would be available at 8.35 per cent while loan above Rs 30 lakh would be linked to repo rate, he said. At the same time, the bank offering education loan at competitive rate, he added. The bank has also launched an SME welcome offer, he said, adding, loans between Rs 50 and Rs 5 crore would be available at concessional rate depending on value of security. Last month, the country’s largest lender State Bank of India (SBI) announced a number of offers including cheaper rates for home and auto loan borrowers, to cash in on festival fervor. Customers can avail cheaper loans with added benefits such as waiver in processing fees, pre-approved digital loans and loans with no escalation in interest rates spread across various categories, SBI had said.

*Dated: Sep 08, 2019*

• **Airtel Payments Bank Launches ‘Bharosa’ Savings Account:**

Airtel Payments Bank here on Tuesday launched “Bharosa” savings account services, designed for deepening the financial inclusion in the country. Along with convenient banking services, Bharosa savings account would offer Rs 5 lakh personal accident insurance on maintaining balance of Rs 500 along with one debit transaction per month. Customers would also be eligible for cashback, if they decided to receive government subsidies in their Bharosa account or if they made cash deposits in it, the company said in a statement. “The benefits of this product will be further amplified through a structured roadway for phased introduction of other features linked to formal banking. To begin with, it will be available at over a quarter million banking points. Bharosa savings account customers can also withdraw cash, check their balance or access a mini statement of their account at over 6,50,000 AePS (Aadhaar-enabled payment system) enabled outlets across India,” it said. Airtel Payments Bank offers digital banking services through a network of 5,00,000 neighbourhood banking points spread across the the country.

*Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/airtel-payments-bank-launches-bharosa-savings-account/articleshow/71171670.cms*
*Dated: Sep 17, 2019*

• **SBI Launches Mobile App YONO In UK:**

State Bank of India (SBI) has launched its digital banking app YONO in the UK, marking its global launch. SBI Chairman Rajnish Kumar unveiled the app at an exclusive event hosted in coordination with the UK India Business Council (UKIBC) in London on Monday. “YONO SBI UK is one of the highlights of SBI’s technological capabilities. I am delighted to launch YONO for our UK customers, after its success in India,” said Kumar. “I am sure the easy-to-use features and refreshing design will ensure that the app offers a positive customer experience..."
and showcases bank’s strong focus on digital banking,” he said. Available on both the Apple’s App Store and Google Play Store, YONO SBI UK is described as an enhanced mobile app which is “simple, intuitive, and user friendly” for customers to carry out almost all their banking needs. After the UK, the app will begin being launched by SBI at its other operations worldwide. Richard Heald, UKIBC Group CEO, said: “It is exciting to see how passionate SBI is in its determination to deliver innovative technological products for its customers, particularly here in the UK which has a large Indian diaspora.” The app will allow customers with accounts at both SBI UK and SBI in India to access both accounts through one app, thereby improving the customer experience and ease-of-use. The app would also allow customers to change their address, e-mail, mobile numbers online. SBI said that YONO also comes with a strong cordon of device binding to protect the security of customer funds. Launched in 2017 by SBI in India, YONO has become very popular, especially among the youth, as it caters to their banking and lifestyle needs simultaneously, SBI noted. The UK version will offer SBI account holders numerous features like easy UK money transfers or payments and remittances to India, available 24x7 with attractive exchange rates on remittances to India and so on. The SBI UK said the facility to open an account online through the app will be made available soon.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-launches-mobile-app-yono-in-uk/articleshow/71276980.cms
Dated: Sep 24, 2019

• PNB Launches Preventive Vigilance Portal:

Punjab National Bank (PNB) on Wednesday launched a Preventive Vigilance portal to facilitate its staff members to check procedural lapses and promote good practices. In order to promote vigilance awareness, a function was held at PNB Corporate Office, chaired by Central Vigilance Commissioner Sharad Kumar. Besides other activities, such as inauguration of e-pledge mission, social outreach through technological platforms for promoting the central theme of ‘Integrity - A way of Life’, the bank introduced technology-based solutions through the Preventive Vigilance (PV) portal, which is the first of its kind, the bank said in a statement. The PV portal will facilitate all staff members to contribute towards arresting procedural lapses and unhealthy practices, and will usher in a coherent climate conducive to banking for the modern age, it said. Speaking at the occasion, PNB Managing Director Sunil Mehta highlighted the importance of integrity for quality of business and in turn promoting peace and prosperity in the society.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/pnb-launches-preventive-vigilance-portal/articleshow/71299261.cms
Dated: Sep 25, 2019

• Banks To Launch First Phase Of Customer Outreach Loan Initiative On Oct 3:

The state-owned banks and several private sector financial entities are gearing up to launch first phase of ‘customer outreach initiative’ covering 250 districts on October 3, for providing loans to retail customers and MSMEs to meet festival time needs. During four-day period beginning October 3, loans will be provided for retail, agriculture, vehicle, home, MSME, education and personal needs of consumers. The second phase will be in 150 districts and will be held between October 21 and October 25, just before Diwali, sources said. This is part of the systematic bank reform process which envisioned taking banks to doorsteps and increasing ease of customer access and delivery of services, sources added. During the annual performance
review earlier this month, public sector banks decided to undertake outreach exercise in identified 400 districts. Later, private sector too expressed their willingness to join the initiative. These camps will provide a one stop destination for MSMEs, small retail businesses and end customers to access all bank services, especially loans in auto, home, personal and business section. While at one level it will help businesses to gear up for the festive season, it will also provide ready cash in the hands of the consumers. Needless to say, all prudent financial norms and due diligence will be followed by PSBs while disbursing loans, the sources said. Awareness camps will be held in these districts to let people know about the event. For spreading information, the sources said, local vendor associations, commercial organizations and chambers of commerce may also be engaged to spread the message among merchants and customers. In line with the government’s thrust on Digital India, the initiative will focus on financial inclusion schemes and digital payment methods so as to encourage consumers and merchants to increasingly shift to these payment modes, the sources noted. Apart from PSBs, NBFCs/HFCs/ MFIs/SIDBI and private sector banks can also participate in the scheme.

Dated: Sep 30, 2019

• **Banks To Launch First Phase Of Customer Outreach Loan Initiative On Oct 3:**

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Dated: Sep 30, 2019
• NPAs May Come Down To Rs 9.1 Lakh Cr By FY20 (ASSOCHAM-CRISIL):

The gross bad loans of banks are expected to come down marginally to Rs 9.1 lakh crore by the end of the current financial year, according to a report. Indian banks' gross non-performing assets (NPAs) stood at Rs 9.4 lakh crore as on March 31, 2019, said a joint study by Assocham-Crisil. "There is a significant potential opportunity for stressed-assets investors, given around Rs 9.4 lakh crore NPAs in the banking system as on March 31, 2019. Of this, the corporate segment, which has seen active interest from most investors, is estimated to account for 70 per cent," the report 'Bolstering ARCs' said. It said large stressed borrowers have debt aggregating to Rs 5.4 lakh crore, which is a huge playing field in itself for investors. Of the total, National Company Law Tribunal (NCLT) list-1 and list-2 comprised around Rs 2.1 lakh crore and existing stock of NPAs comprised another Rs 2 lakh crore. "Over and above this, assets of around Rs 1.3 lakh crore are estimated to be under stress but have not been recognised as NPAs, these assets could potentially slip into NPAs over the near to medium term," the report said further. Power, infrastructure and steel sectors together constitute about half of Rs 4.1 lakh crore worth stressed assets. Power sector accounts for the largest proportion, and resolution in this sector has not been significant. It said the revised stressed asset framework is expected to benefit stressed power sector assets that were operational and on the verge of being referred to insolvency proceedings under IBC (estimated at Rs 1 lakh crore as on March 31, 2019). RBI's resolution framework on recognising bad loans and the Insolvency and Bankruptcy Code (IBC) have paved the way for attracting investors into the stressed-assets space and helped speed up resolution, ironing out issues regarding legal aspects and resolution timelines will be critical to boost investor confidence, it said. The report also said that with a higher cash share becoming a norm, asset reconstruction companies (ARCs) will need to focus more on resolutions and attracting co-investors. Assets under management (AUM) growth of ARCs are therefore, expected to be range-bound at 8-10 per cent over the medium term, the report added. Going forward, with increase in proportion cash deals, the discounts are expected to remain on the higher side. To make way for newer acquisitions and also attract new and repeat investors, it is imperative for ARCs to quickly resolve the assets and redeem the security receipts. ASSOCHAM-CRISIL study also highlighted that ARCs have learnt from past experiences and are implementing successful strategies to improve recovery rates. "The recovery rate which is gross recovery to principal debt acquired is expected to improve to 44-48 per cent from earlier level of 40 per cent owing to quicker debt aggregation, acquisition of lower vintage of assets, positive changes in regulatory framework and improved credit discipline and support from promoters of a company under resolution," it said.

Dated: Sep 03, 2019

• State-Owned Banks’ Profitability And RoA To Be Low In Current Financial Year (ICRA):

Rating agency ICRA on Wednesday said profitability and return on assets (RoA) of public sector banks (PSBs) are likely to remain low during the current financial year on the
back of continued provisioning on existing and fresh bad loans. Provisioning on existing and fresh non-performing assets (NPAs) will consume majority of operating profits, ICRA said in a statement. "This would result in overall poor profitability and feeble return on equity (RoE) of less than 1 per cent," it said. Private sector banks will also face another challenging year due to high credit cost and a muted RoE at 9-10 per cent, notwithstanding 15-30 per cent growth in their net profits during the current fiscal, it said. Though PSBs on an aggregate basis returned to profit for the first time in the first quarter of the current financial year, after 10 consecutive quarters of losses from third quarter of 2016-17, it said. "This was a result of reduction in their net NPA levels by March 2019 upon the sizeable provisioning done in 2018-19. As per ICRA’s estimates, the losses before taxes for PSBs stood at Rs 1.15 lakh crore during 2018-19 which were somewhat lower than capital infusion of Rs 1.27 lakh crore by the Government of India (GoI) and LIC in IDBI Bank,” it said. On the other hand, strong net interest income growth and decline in credit provisions drove a strong 30 per cent growth in profit after taxes for private banks during the first quarter of the current financial year. Regarding asset quality, it said fresh gross slippages for both PSBs (accounting for about 73 per cent of the total slippage) and private banks rose on a sequential basis during the first quarter, driven by increased slippages in the micro, small and medium enterprises (MSME) segment and the seasonal spike witnessed in the agricultural segment. The same stood at Rs 85,643 crore, compared to Rs 77,784 crore during the fourth of 2018-19 and Rs 94,756 crs during the first quarter of FY19. The gross NPAs for both PSBs and private banks rose marginally in percentage terms during the first quarter of the current financial year after declining in 2018-19, mainly because of lower base of advances due to seasonal credit de-growth, it said. Gross NPAs for PSBs rose to 12.3 per cent of the total gross advances as on June 30, 2018, compared with 12 per cent as on March 31, 2019. For private banks, the NPAs rose 4.2 per cent of their advances as at the end of June 2019 from 4.1 per cent as on March 31, 2019, it added. With incremental stress emerging from real estate, automobiles, MSME, non-banking financial company and, possibly retail, sectors amid the slowing gross domestic product growth trends and subsequent impact on economic activity and income levels, gross slippages are estimated to remain elevated at 3.2-3.6 per cent of standard advances during 2019-20 as compared to 3.9 per cent in the previous financial year. As regards credit and deposit growth, it said there has been de-growth in credit outstanding between March and August this year, with non-food bank credit declining to Rs 96.2 lakh crore as on August 16 from Rs 97.25 lakh crore as on March 29. "The de-growth in bank credit could be because of seasonally weak credit demand during the first half of the financial year or; possibly because of increased credit risk aversion of banks given some of the recent defaults by large borrowers," it said. In contrast, there has been an improvement in incremental deposit build-up of the banking system, leading to easing in credit deposit ratio to 76.4 per cent as on August 2019 from 77.7 per cent as on March 2019.


Dated: Sep 25, 2019

• PSBs Best For Sustainable Development; India, Russia, Sa Have Anorexic Loan Portfolio (UNCTAD): Backing public sector banks is best for sustainable development, however, countries such as India, Russia and South Africa have anorexic loan portfolio against
their gross domestic product, which is too low to meet sustainable development goals, said a UN report on Wednesday. Public banking should be given back its traditional, bigger role if the environmental and economic landscape is to be transformed by 2030, said the UNCTAD Trade and Development Report 2019 released here. "It is public banking that does the heavy lifting and hence public banking should be better supported for the future. Public banks are designed to be different from private banks; to focus on long-term projects whose benefits exceed purely commercial returns and on sectors and locations that private finance ignores," said the United Nations Conference on Trade and Development (UNCTAD) report on 'Financing A Global Green New Deal'. Public banks in many countries, despite constant ideological barrage, are already doing this, especially in developing world and have added hundreds of billions of dollars of loans to development, it said. UNCTAD's analysis shows that public and especially development banks are insufficiently capitalised to scale up their required role. "Some banks are highly engaged - with outstanding loans by the China Development Bank at over 13.4 per cent of China’s GDP and the Korean Development Bank at 10.5 per cent of Korea's GDP. "But other public banks in countries such as India, Malaysia, Mexico, the Russian Federation and South Africa have anorexic loan portfolios at just between 1 to 2 per cent of their countries' GDPs," the report said. This is too low for the Sustainable Development Goals or for a Global Green New Deal. "This year's Trade and Development Report suggests that meeting the financing demands of the Agenda 2030 requires rebuilding multilateralism around the idea of a Global Green New Deal, and pursuing a financial future very different from the recent past," said Mukhisa Kituyi Secretary-General of the UNCTAD. The place to begin building such a future is with a serious discussion of public financing options, as part of a wider process of repairing the social contract on which inclusive and sustainable outcomes can emerge and from which private finance can be engaged on more socially productive terms, said Kituyi. Many banks' low loan-to-equity ratio is a constraining factor, particularly development banks that raise resources in national and international capital markets. As banks have a fixed capital base, the scale of their lending is limited by how markets view their solvency, which to a large extent depends on their credit ratings, the report said. Banks' efforts to achieve high ratings are unnecessarily constraining their lending by up to USD 1 trillion, the UNCTAD said, citing estimates from credit rating agencies. Greater policy support is essential to build on the positive opportunities public banking is already creating, the report said. It also suggested measures such as freeing central banks from their narrow focus on price stability/inflation targeting, so they can recover their historical, bolder role and support a Global Green New Deal. "This should include creating and guiding credit toward greener activities, including issuing green bonds and, if necessary, acting as a buyer of last resort. Giving development and other public banks more capital so they can scale up lending, including by direct financing and enabling banks to reinvest their profits," it suggested. Among others, it said sovereign wealth funds should be directed towards developmental need and a review by governments of their own requirements for their banks to achieve super high credit ratings. It also said that public banks should not become diverted from their purpose.


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