AIRRBOF News Letter
February, 2013
Sky is not the limit, we cover it...
The Voice of All India RRB Officers' Federation
Vol - XX SILIGURI No. 02

EDITORIAL

A CASE FOR PAYING INTEREST ON CRR BALANCES

It is generally believed that both the cash reserve ratio (CRR) and the statutory liquidity ratio (SLR) are monetary tools in the hands of Reserve Bank of India. SLR, in fact, is not a tool to regulate the liquidity in the system.

SLR investments are made in government bonds, which will come back to the system as and when the government spends the money mobilised through issuing bonds. Therefore, only CRR serves as a monetary tool in the hands of RBI by moderating the money multiplier effect.

SLR is primarily aimed at restricting the expansion of bank credit as also to ensure solvency of banks.

In banking circles, whether interest should be paid on CRR balances has been raging for long. Those against paying interest argue that the purpose of CRR is to reduce the money supply or liquidity in the system and payment of interest would reduce the efficacy of CRR.

There may be objection as to why the RBI should pay interest on the balances kept with it when it is not earning anything out of those funds. The answer is that payment of interest is the cost of sucking excess liquidity which is harmful to the economy.

If liquidity is sucked through CRR and no interest is paid on it, this would amount to an implicit tax with the public bearing the cost of regulating liquidity in the system. In any case, there is a cost involved in monetary control. If no interest is paid on CRR, the cost is borne by the public in the form of implicit tax. If interest is paid on CRR, the cost is to be borne by the central bank or the Central Government.

Open market purchases will achieve the same effect of increasing the liquidity in the system as the reduction in CRR does. Similarly, by resorting to open market sale of securities which were purchased by the RBI due to devolvement or otherwise, the liquidity in the system can be reduced without increasing the CRR.

Both open market purchase and sale of securities involve interest element attached to the respective securities.

On the same logic of paying interest while using other monetary tools such as OMO and MSS, the RBI may pay interest on CRR balances too. In fact, the RBI would do well to pay interest not only on the statutory CRR balances but also on the excess balances.

Banks also can keep the surplus funds with the RBI at the reverse repo rate of 7 per cent. However, this cannot happen infinitely as it involves transfer of securities from the RBI to banks. The securities so transferred serve no purpose as they are not considered for SLR.

Therefore, the RBI may very well accept excess CRR balances and pay interest.

Interest on reserves should be used as a monetary tool and when liquidity is required to be increased, the rate on reserves need to be reduced to such a level that it becomes a disincentive to keep balance with the central bank.

ENRICH YOUR KNOWLEDGE

BUSINESS CORRESPONDENT

Who is a business correspondent?

According to guidelines issued by the Reserve Bank of India (RBI), various entities including non-governmental organizations and microfinance institutions registered under the Societies Act or Indian Trusts Act, societies registered under the Mutually Aided

Cooperative Societies Act or the Cooperative Societies Act of States, post offices or various other individuals who qualify the RBI criterion can become BCs.

These entities are appointed by banks to act as their agent and provide banking services such as opening bank accounts, accepting deposits and disbursing money, among others. BCs work in far-flung locations where the bank does not have a presence, but wants to provide services as part of its financial inclusion initiative. BCs are allowed to sell other financial products as well.

Who can become a BC?

At the basic level, an individual BC should be well-known in the locality of operation, should be reliable, should have the ability to invest in point of sale (PoS) machines, a handlheld device, and should have minimum prescribed educational qualification. RBI also directs that banks should make efforts to publicize the engaged BC in the area of operation so that BCs are not misunderstood.

How does a BC operate?

BCs carry PoS machines to help customers transact. Existing customers can produce the smartcard issued to them which is then matched through biometric fingerprints and transactions are carried out. BCs can help with opening new accounts and know-your-customer (KYC) compliance.

Each BC can carry a mandated amount of cash at any point of time. At the end of each day, BCs are required to account for the transactions carried out through the day. Though BCs are the interface for customers, banks are finally responsible to the customers in case of any wrongdoing.

BCs work on a commission model and are paid by the bank. They are not allowed to charge any fee from the customers for the banking services provided.

INTERCONNECTIVITY BETWEEN BANKS

The Reserve Bank of India (RBI) has in principle agreed to permit interoperability of business correspondents (BCs), aimed at helping customers in rural areas access banking services such as cash deposits, withdrawals, remittances and balance enquiries from anywhere in the country on the lines of ATM facilities available to customers in urban areas.

Interoperability will allow BCs of one bank to service customers of other banks as well, a move that will help segments such as migrant labourers access banking services from anywhere in the country and in the process encouraging greater financial inclusion.

The banking regulator is expected to issue guidelines soon, said two people familiar with the development.

RBI permitted banks to use the services of intermediaries such as business facilitators and correspondents to provide banking services for ensuring greater financial inclusion and increasing the outreach of the banking sector. BCs serviced 76,801 villages and 3,653 urban locations as of end-March, RBI data shows.

According to Shri A. P. Hota, Managing Director and Chief Executive of National Payments Corporation of India (NPCI), "A customer who is being serviced by the BC of one bank can go to the BC of another and perform all transactional services such as cash deposit and withdrawal, and remittances.

Once interoperability is allowed, a customer can approach any BC with the smart card that holds demographic and account details. The BC, with the help of a hand-held device—a micro ATM—will verify the information about the customer with his or her bank. "The verification will be either through a PIN or through biometrics."

A BC can currently work for only one bank in a particular area and cannot undertake transactions for customers of other banks, said Rishi Gupta, chief financial officer of **Financial Inclusion Network and Operations Ltd** (FINO). "Interoperability does not entail technology alone. There is a question of how the settlements will take place."

NEWS FROM AIRRBOF

Circular # 01:2013 10th January, 2013

NEWS ROUND UP

Shri Rajiv Takru have been appointed as Secretary, Dept. of Financial Services with effect from 1st February, 2013. Shri Takru shall replace Shri D. K. Mittal who is retiring on superannuation on 31st January, 2013. Shri Takru, an IAS of 1979 batch, shall function as OSD till 31st January, 2013. Shri Takru last served as Addl. Secretary and Financial Advisor in the Ministry of Health and Family Welfare.

2. The latest amalgamation of Kalinga Gramya Bank, Neelanchal Gramya Bank and Baitarani Gramya Bank in Orissa Gramya Bank sponsored by Indian Overseas Bank on 7th January, 2013 brought down number of RRBs to 67.

3. The SLP of Union of India filed in the Supreme Court has been registered as SLP (c) No. 39288/2012. The same is yet to be listed for admission. AIRRBOF is keenly watching the situation and shall explore all legal means to clinch Pension at par.

4. The next meeting of the Central Committee of AIRRBOF shall be held at Udhaganandalam or Ooty in the first fortnight of March, 2013.

5. The Binneal General Body Meeting of Utkal Grameen Bank Officers' Association shall be held on February, 17, 2013 at Jeypore (Orissa). The Meeting shall be attended by General Secretary, AIRRBOF.

6. The General Body Meeting of Bangia Gramin Bank Officers' Association shall be held at Bankura (West Bengal) on 26th & 27th January, 2013. The meeting shall be attended by Com. Basudeb Acharia, M.P., Com. Asim Dasgupta, Ex-Finance Minister, West Bengal & Com. General Secretary of AIRRBOF.

Circular # 02:2013 28th January, 2013

3RD BIENNIAL GENERAL CONFERENCE OF BANGIA GRAMIN BANK OFFICERS' ASSOCIATION (WEST BENGAL) AT BANKURA ON 26TH & 27TH JANUARY, 2013

The 2nd biggest Gramin Bank in the country, Bangia Gramin Vikash Bank came into being after amalgamation of five erstwhile RRBs in the State of West Bengal. Our affiliate Bangia Gramin Bank Officers' Association is the largest organisation of the officers in the Bank. The 3rd Biennial General Conference of the Association was conducted at Bankura on 26th & 27th January, 2013.

The open session of the conference was preceded by holding of AIBOC flag by Shri S. K. Bhattacharjee, General Secretary, AIRRBOF & Jt. General Secretary of AIBOC. Floral tributes ware paid to the statute of the martyrs' by the leaders of AIBOC, AIRRBOF and others guests.

The session started with the ushering of the leaders and guests to the dials and welcoming them by flower bouquets and souvenirs. The conference was inaugurated by Shri Basudeb Acharia, Member of Parliament (Lok Sabha) and the long standing friend, philosopher and guide of RRB Officers' movement. In his address Shri Acharia came down heavily on the anti working class and anti people policies of the Central Govt. He also made scathing comments on the attempts to dilute the Public Sector character of the Major Banks and tinkering with the RRBs. He pledged full support to the demands of RRB officers & employees.

Thereafter, welcome address was rendered by Shri Subhas Bose, General Secretary of the affiliate. Dr. Asim Dasgupta, eminent economist and a great votary of federalism, in his speech recounted in detail the exemplary role played by the RRBs and its workforce in improving the economic scenario of the Rural India and called for greater role to be assigned to them. He lauded the performance of the RRBs and appreciated the attaining of profitability by RRBs despite all odds. Shri Dipankar Mukherjee, General Secretary, UBOA and Secretary AIBOC, WB State Unit pooh-poohed the sinister design of the Govt. and Management combine to belittle the role played by Nationalized Banks. He supported the RRBs officers' role and pledged full support to the movement to attain party.

Shri S. K. Bhattacharjee, General Secretary, AIRRBOF in his brief but spirited address brought out the great role played by AIRRBOF in bringing party. He lambasted the polices of Govt. to discriminate the RRBs. He congratulated officers for their valiant role to bring profitability by RRBs
despite of both Central and State Governments' apathy to park funds with RRBs. He questioned the role played by the Finance Ministry to block the prospect of RRBs workforce to get Pension at par. He expressed confidence that AIRRBOF is capable enough to win Pension battle before the Hon'ble Supreme Court and ensure Pension to each & every officer of RRBs. He called for concerted effort to educate the workforce about the totality of the present amalgamation process and bring about amalgamation with sponsor Banks.

Shri Srijan Pal, General Secretary, WBRRBOA brought out the fact of callousness of the Management of Banks to invest funds at lower rate of interest exposing RRBs to loss. He expressed confidence that soon WBRRBOA shall attain overwhelming majority in the RRBs of West Bengal.

Presidential address was rendered by Shri Subrata Saha Roy and vote of thanks by Shri Tushar Kanti Hazra.

The open session was followed by performing of famous 'CHOU' dance by artists from Purulia.

The delegate session of conference was held at Rabindra Bhawan, Bankura on 27th January, 2013.

With the formal announcement of the opening of the session, General Secretary Shri Subhas Bosu presented the report of the Biennial Term. Shri Swapan Sarkar presented the statement of Accounts for the preceding two years. Shri Debashis Mahapatra placed six resolutions before the house.

Shri S. K. Bhattacharjee, General Secretary, AIRRBOF was present in the delegate session and addressed the delegates on the position of Pension Parity, amalgamation process and organisational matters. The speech of Shri Bhattacharjee was highly applauded by the delegates.

The General Secretary's Report, Statement of Accounts and resolutions were unanimously approved by the conference after lot of deliberations. A New team

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of office bearers with Shri Subhas Bosu as president and Shri Tushar Kanti Hazra as General Secretary was elected. AIRRBOF congratulate the new team and assure full help & support.

PRESS CORNER

URJIT PATEL SET TO BE RBI DEPUTY GOVERNOR

The finance ministry on Wednesday said that it has recommended economist Urjit Patel for appointment as a deputy governor of the Reserve Bank of India to replace Subir Gokarnwho completed his term in December. D K Mittal, secretary, department of financial services in the finance ministry, confirmed to newspersons that Patel's name has been finalized. The appointment is likely to take place after clearances from various departments in the government. Some sections see the government's decision to ignore RBI's recommendation of an extension for Gokarn as a move to get back at the central bank for not supporting its growth targets with lower interest rates. However, this might not be the case. According to sources, as an economist Patel is known to have taken a hawkish stance on inflation. A research paper 'Dynamics of Inflation Herding: Decoding India's Inflationary Process', authored by Patel with Gangadhar Darbha, ED, Nomura, concludes that the recent bout of high, persistent and widespread (across sectors) inflation is not on account of food and energy. The paper also indicates that RBI acted late in recognizing inflation pressures.
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Patel, a consultant with Boston Consulting Group, was part of the management committee of IDFC for almost a decade since its inception. He has diverse experience at policy level in the finance ministry, as an academic and as a part of industry. Between 2006-07 he was non-resident fellow at Brooking Institution, Washington DC. Following his stint in the IDFC

he was President (Business Development) at Reliance Industries. Although Patel will be replacing Gokarn, it is not known whether he will be given charge of the monetary policy department. Besides his role as a consultant and an academic, Patel advises the government on various panels. He is also a board member in Gujarat State Petroleum Corporation.

Source : The Economic Times, Thursday, 3rd January, 2013

CYRUS'S CHALLENGE

Inheriting a $100 billion empire, as Cyrus Mistry will do tomorrow, must be intimidating. More so when you're following a Ratan Tata who, while maintaining his reputation for integrity, delivered a scorching growth (20% annually since FY92 and 30% since FY06), and with a reasonable profit margin. The Tata Group's FY12 PAT/sales of 6.95% is not too different from Reliance Industries 7.07%, and that's when RIL isn't anywhere as diversified and has a turnover of a third less. The flipside is much of this is linked to a single company, TCS, which operates in an environment that's getting tougher by the day—TCS accounts for a tenth of group turnover but a third of profits and half of market capitalisation; remove TCS and the group's ROCE falls by around 40%. Mistry's obvious advantage is he has the board's approval, unlike in the case of Tata when he joined, despite bearing the family name—how problematic a dysfunctional board can be is best seen from Hewlett Packard's case. The fact that, much like himself, Mistry is dealing with a young team of committed professionals is another plus—so unlike Tata, he won't spend time gaining control of the empire. It also helps that, as in the case of JLR, the integration and turnaround of several big global takeovers has been completed.

The most important part of Mistry's job will obviously revolve around making Corus profitable—shorn of asset sales, Tata Steel profits in FY12 were just R1,760 crore on a turnover of R132,900 crore. One suggestion involves selling off part of TCS's equity (market value R245,000 crore) to retire part of Tata Steel's R60,000 crore debt. Other parts of the empire, such as the telecom piece, are clear losers and Mistry may want to revisit his mentor's stated position of not remaining in an industry if he didn't occupy the number 1 to 3 slot. The Nano is a non-starter and the passenger car business hasn't delivered a hit for a long time. Power looks a natural Tata fit, but the business is bleeding and, in its current form, can badly hurt the group. Capital is scarce and Mistry needs to get the best value for it. While Tata built the empire, Mistry may need to unbuild it first, so as to infuse cash in the ventures—like Indian Hotels—that look promising.

That, ironically, could be the easy bit. Unlike Tata who made his real mark in an unprecedented global boom—over half of group revenues come from overseas operations—Mistry will likely see a 4-5 year period of global slowing. Given the complex global and local politics—witness the running battle between Lakshmi Mittal and the French government over closing two blast furnaces and the scramble to get mining and telecom licences in India—much of Mistry's time and skills will likely be used in managing the external environment, something Tata by and large stayed away from. One Singur was enough to get Tata's back up and dealing with one Raja hurt the group's reputation. Mistry will have to deal with many more, and across the globe—getting the Delhi government to agree to renew the Taj's Mansingh Hotel's lease on a right-of-first-refusal basis was just a small sample. In the past, to deliver on commitments to shareholders, Indian Hotels bought warrants at huge premiums to the market—being able to deliver on something like that, at a group level, isn't going to be easy given the intense global competition, unless the $100 billion empire undergoes some radical surgery.

Source : The Financial Express, Thursday, December 27, 2012

MICROFINANCE DEFAULTERS MAY FIND IT TOUGH TO GET FRESH LOANS

A defaulter or overleveraged borrower might find it difficult to get credit from microfinance institutions (MFIs).

With almost all NBFC-MFIs sharing nearly 100 per cent of the borrowers' credit history with credit bureaus, borrowers will find it difficult to approach them for loans.

Following the crisis in the MFI industry in Andhra Pradesh, the Reserve Bank of India had, in September last year, asked all NBFC-MFIs to upload the data of their clients with any of the four credit bureaus including Cibil, Experian, Equifax and High Mark.

According to Alok Prasad, Chief Executive Officer, Microfinance Institutions Network (MFIN), close to 75 million client records have been uploaded with the two credit bureaus — Equifax and High Mark Credit Information Services Ltd.

"The first step is where the MFIs provide a data of their clients to credit bureaus; the next step is where they can take reports on specific clients to get their borrowing and repayment record. Both these steps are being followed by MFIs," Prasad told *Business Line*.

There are close to 25 million borrowers in the industry.

"The higher number of records with credit bureaus is primarily because a borrower might have taken more than one loan. Some of them might not be taking credit at present but records still exist," said Chandra Shekhar Ghosh, Founder and Chairman of Bandhan.

RBI, in its guidelines to NBFC-MFIs, had instructed that a self-help group cannot borrow from more than two MFIs and the total borrowing should not exceed Rs 50,000.

"Multiple lending and over leveraging were the two key issues that came to light following the crisis. This has been largely put in check as our lending decisions are based on the credit report," said Shubhankar Sengupta, Chief Executive Officer, Arohan Financial Services.

Though MFIs are currently uploading monthly credit record with the bureaus, they will soon start feeding fortnightly data as well to make the system more effective, Prasad said.

The new system has, however, delayed the disbursement process a bit.

"Earlier, disbursements were made within a week but now it takes about two weeks to consult the records and take a decision," Ghosh said.

Source : The Hindu Business Line, Saturday, December 22, 2012

ICICI OPENS 101 RURAL BANK BRANCHES

ICICI Bank, India's largest private sector bank, on Thursday opened 101 rural branches across six states as part of its financial inclusion plan to provide banking services in unbanked villages.

These 'Gramin' branches will offer all the basic banking services such as savings bank

account, fixed and recurring deposit, remittances, Kisan Credit Card, credit cards and tractor loans. "ICICI Bank has also opened close to 2 million 'no frill' savings accounts this year taking the total number to around 12 million 'no frills' accounts, which is a key part of our Financial Inclusion strategy," said Rajiv Sabharwal, executive director, ICICI Bank.

These 'Gramin' branches were formally inaugurated in 19 districts across the states of Rajasthan, Andhra Pradesh, Gujarat, Maharashtra, Madhya Pradesh and Tamil Nadu, he said, adding, all these branches have been opened in small villages.

Source : The Financial Express, Friday, December 14, 2012

PARLIAMENT APPROVES CHANGES IN SARFAESI ACT

In a move expected to empower debt recovery by lenders, Parliament on Monday approved the Bill to amend the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (Sarfaesi Act).

The Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Bill, 2011, amends two Acts — Sarfaesi Act 2002, and Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (DRT Act).

According to the amendments proposed, banks and asset reconstruction companies (ARCs) will be allowed to convert any part of the debt of the defaulting company into equity. Such a conversion would imply that lenders or ARCs would tend to become an equity holder rather than being a creditor of the company.

"Bankers may not be too keen on converting their debt into equity, since the share prices of such defaulting companies fall drastically, resulting into losses for the bank," said a senior official of a public sector bank, requesting anonymity.

Moreover, the amendments also allows banks to bid for any immovable property they have put out for auction themselves, if they do not receive any bids during the auction. In such a scenario, banks will be able to adjust the debt with the amount paid for this property. This enables the bank to secure the asset in part fulfillment of the defaulted loan.

Banks can then sell this property to a new bidder at a later date to clear off the debt completely. However lenders will be able to carry this property on their books only for seven years, as per the Banking Regulation Act, 1949.

Most PSBs showed a fall in their asset quality during the three months ended July-September, and had announced aggressive recovery procedures for the fiscal, even if it meant sacrificing growth.

"The Bill was introduced in 2011 and should not be referred to the standing committee now after 12 months... It would defeat the very purpose of the Bill. In the interest of banking sector, it is necessary to pass the bill in 2012," finance minister P Chidambaram said, adding the move would quicken the process of loan recovery.

Source : The Financial Express, Tuesday, December 11, 2012

TAKE PUBLIC SECTOR BANK STAFF OUT OF CVC PURVIEW

'Perform or Perish' used to be the mantra for businessmen, especially exporters. But for the officers in public sector banks (PSBs), it appears to be 'perform and perish'.
PSBs often face allegations of insensitivity to clients' credit needs from government agencies, entrepreneurs and borrowers.

Unlike other categories of banks, PSBs come under the purview of the Central Vigilance Commission (CVC). Each PSB has a vigilance department headed by a Chief Vigilance Officer (CVO). The CVO is appointed after an interview conducted by the Banking Department, with officers drawn from PSBs and the RBI.

The panel for each bank is sent to the CVC who gives the final clearance. The CVO for each PSB is from other banks. He reports directly to the chief executive of the bank. His performance is assessed by the chief executive and reviewed by the CVC. If the CVO has any doubts about the Chief Executive's actions, he can directly communicate with the CVC.

Every bank has formulated a policy for examining staff accountability whenever an account turns bad. After the scrutiny by senior officers, the case is classified as 'vigilance' or 'non-vigilance' by a committee of senior executives (as per CVC guidelines). If it is classified as a 'vigilance' case (where *mala fide* or gross negligence is suspected), the case is dealt with by the CVO who decides whether the offence attracts a 'major' or a 'minor' penalty. The final penalty must have his concurrence.

Cases in which senior officials above a certain grade are involved are sent to the CVC by the CVO for such a classification and concurrence with the penalty proposed. In addition to the CVC, the Central Bureau of Investigation (CBI) also has jurisdiction over PSB officers. The case is examined by the CBI on a reference by the CVC or the bank or *suo motu*.

The value of security available is examined and wherever there is insufficient security, it is concluded that the bank officials have entered into a criminal conspiracy with the borrower.

The value of security depends on the perception of the bank about the credibility, integrity and the value of the borrower's connections at the time of appraisal. When the case is examined by an outside agency, the account would have already turned into a non-performing asset and the perception is totally different. No large exposure will have 100 per cent security coverage.

The final fate of the official depends entirely on the mindset of the CVO. A person with operational experience understands the nuances of decision-making and takes an objective view of the issue. If, unfortunately, the CVO is a person with little operational exposure the official's life becomes miserable.

It is undeniable that accountability has to be examined and those found delinquent punished. But a distinction has to be made between genuine error of judgment and acts of malfeasance.

Staff accountability is studied seven or eight years after the sanction of the loan. Credit decisions are taken based on the circumstances prevailing and the information available at that point of time. No commercial organisation including PSBs can claim that 100 per cent of their decisions have been correct and resulted in profit.

Once a case is classified as 'vigilance' it takes years for the whole process, including the appeal, to be completed. During this time, the official undergoes trauma and loses his promotions, resulting in stagnation and frustration. The position is worse when fraud is involved. Take, for example, the case of borrowers obtaining housing loans through doctored documents.

More often than not, the officer is an innocent victim of a clever fraudster. But it is presumed that the official has a role in the fraud and he is subjected to untold misery.

When hard-working and enthusiastic officers get demoralised, fear psychosis sets in and decision-making is the casualty. Credit proposals are examined with a fine-tooth comb and ways and means are found to reject the application and avoid the trauma later.

While the CVC itself has given PSBs clear directives to distinguish between commercial decision and *mala fide* action, the implementation is subjective, depending on the CVO's mindset.It is high time PSB officials are taken out of the CVC's purview. Instead, a robust internal mechanism with sufficient checks and balances needs to be built up to ensure that the guilty are not spared, innocent are not punished and accountability is fixed for non-performance.

Source : The Hindu Business Line, Monday, November 26, 2012

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AIRRBOF NEWS LETTER

Registered with RNI, New Delhi,
Regn. No. 4L/RV/TO/93
Postal Regn. No. WB/DE/007/2009-2011

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