AIRRBOF News Letter
July, 2013
Sky is not the limit, we cover it...
The Voice of All India RRB Officers' Federation
Vol - XX SILIGURI No. 07

EDITORIAL

RISE IN FINANCIAL SAVINGS SIGNAL LOWER GOLD IMPORTS, SAFER RUPEE

With anxiety growing in proportion to the rupee's fall, resurgent investor interest in financial instruments is good news. Investors have started putting their money in mutual funds and insurance, says the latest data from markets regulator Sebi and insurance regulator Irda. This is welcome diversion of savings from gold. Sebi's data shows net inflows of Rs 1.06 lakh crore into mutual fund schemes during April, the highest in two years. Independently, Irda sees a 19 per cent increase in the first-year premium collections of life insurers in April at Rs 1,334 crore against Rs 1,125 crore in the same month last year.

This is a welcome sign that investors are regaining confidence in financial savings. To keep the momentum going, the government needs to come out with more products like inflation-indexed bonds (IIBs) and raise the foreign direct investment (FDI) limit in insurance, so that private insurers can continue to grow their business — prudential norms call for growing capitalisation of insurance companies as their premium collections grow. Gold imports have been a major factor in widening the current account deficit and weakening the rupee. The weakening of the global price of gold has already seen an erosion in gold's appeal as an investment option. When investors regain confidence in the ability of financial instruments to yield returns at least on par with what gold offers, they would ditch gold. The April data suggest early signs of that happening. The government has been battling to curb the demand for gold. It has raised import duty to 8 per cent from 2 per

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cent. The RBI has disallowed import of gold on credit and directed banks not to import gold on a consignment basis for domestic use. .

The rupee's slide might seem to refurbish gold's sheen. But this would be transient. A lower rupee would make imports in general more expensive, leading to a lower current account deficit. And the rupee's slide could well reverse, making gold cheaper in the process. Gold remains a riskier option as compared to, say, IIBs. Household financial savings must return to double digits.

ENRICH YOUR KNOWLEDGE

DERIVATIVES MARKET

The derivatives market is the financial market for derivatives, financial instruments like futures contracts or options, which are derived from other forms of assets.

The market can be divided into two, that for exchange-traded derivatives and that for over-the-counter derivatives. The legal nature of these products is very different as well as the way they are traded, though many market participants are active in both.

FUTURES MARKETS

Futures exchanges, such as Euronext.liffe and the Chicago Mercantile Exchange, trade in standardized derivative contracts. These are options contracts and futures contracts on a whole range of underlyingproducts. The members of the exchange hold positions in these contracts with the exchange, who acts as central counterparty. When one party goes long (buys a futures contract), another goes short (sells). When a new contract is introduced, the total position in the contract is zero. Therefore, the sum of all the long positions must be equal to the sum of all the short positions. In other words, risk is transferred from one party to another.

OVER-THE-COUNTER MARKETS

Tailor-made derivatives, not traded on a futures exchange are traded on over-the-counter markets, also known as the OTC market. These consist of investment banks who have traders who make markets in these derivatives, and clients such as hedge funds, commercial banks, government sponsored enterprises, etc. Products that are always traded over-the-counter are swaps, forward rate agreements, forward contracts, credit derivatives, accumulators etc.

CONTROVERSY ABOUT THE FINANCIAL CRISIS

The derivative markets have been accused lately for their alleged role in the financial crisis of 2007-2010. The leveraged operations are said to have generated an "irrational appeal" for risk taking, and the lack of clearing obligations also appeared as very damaging for the balance of the market. The G-20's proposals for financial markets reform all stress these points, and suggest:

- Higher capital standards
- Stronger risk management
- International surveillance of financial firms' operations
- Dynamic capital rules.

FUTURE TRADING

Future trading is a revolutionary system that brought many changes in the world of stock market. Before proceeding further, let me put some questions…

What would you do even if you know markets will fall in next 1 month of time if there is no derivative trading.

Yes, as cash trading does not permit short trading for more than 1 day, traders have to rely on derivative trading for some reasons.

As the name itself contains a word "Derive", it tell us the definition, "security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset". Derivative trading is classified into future trading, option trading, forward contract, swaps etc.

Let us put this in a simpler way, on January 1st, a person 'M' comes to a contact with shopkeeper 'N' that he want delivery of 1 book on January 27th at the same current market price, say Rs.10, which is running on the contract day, January 1st (person 'M' has to pay the agreed amount at the time of contract i.e., January 1st to 'N').

On January 27th if the market price of the book is above 10, say Rs.13, the person 'M' will be in the profit as he already went into contract and paid at a price (Rs.10) less than the price on January 27th (Rs.13). As well, if the price on January 27th is less than Rs.10, say Rs.7 its obvious to say the the shopkeeper 'N' will be in profit as he sold the book for a price (Rs.10) greater than current price of January 27th (Rs.7).

Here, the person 'M' is in a view that market price of the book might raise till January 27th and so he paid an amount of rs.10 in advance the shopkeeper 'N' is in a view that book price might fall till January 27th and agreed to take a sum of Rs.10 in advance as per the contract.

In the above example, January 27th is the final date of contract which is called as "EXPIRY" that would be the last Thursday of the month. If buyer or seller failed to square off on the last day of the contract, it will be done automatically by the exchange. In general, three expiries are available in Indian stock market, where traders can come into a contract with 3rd month and hold the stock for 90 days.

The most important feature of future trading is that, it allows to short the markets for the same period of contract time where you become a seller with a view that markets might fall in the near future. There is no need for the traders who are in short to square off their positions in intraday.

EXCERPTS FROM AIRRBOF CIRCULARS

Circular # 19:2013 3rd June, 2013

ORGANISATIONAL VISIT TO BANGALORE ON 1ST JUNE, 2013

A team of Office Bearers of our Federation comprising of General Secretary, Vice-President Com. M. V. Karar and Com. P. N. Madhusudhan, CC Members made organizational visit to Bangalore on 1st June, 2013.

The team went to the home of Com. B. S. Ravindra, Former State Secretary, AIBOC, Karnataka State Unit and felicitated him on his superannuation. The bond of love, friendship and mutual cooperation was duly appreciated by our Federation as well as Com. Ravindra. He was presented a shawl and offered a small gift on behalf of our Federation.

Thereafter, we visited Canara Bank, Head Office and held meeting with Shri S. Ramesh, New General Manager, who took charge of RRBs today itself. We along with Com. K. N. Murthy, Vice President, Canara Bank Officers' Association felicitated Shri Ramesh on his assuming the new office. Shri Ramesh was found to be very cordial during discussion and assured his full support to our affiliated Units.

The team also visited State Bank of Mysore, Head Office and held meeting with Com. S. Guruswamy, General Secretary and Com. Sukumara Hedge, President of the AIBOA, SBM Unit. In view of the fact that our affiliated, Karavi Grameena Bank Officers' Organization is going through a process of development, the leadership of AIBOA, SBM Unit assured to extend full support.

The organizational visit to Bangalore remained a great success.

Circular # 20:2013 3rd June, 2013

SPECIAL MEETING OF KAVERI GRAMEENA BANK OFFICERS' ORGANIZATION AT MYSORE ON 2ND JUNE, 2013

A Special Meeting of the Kaveri Grameena Bank Officers' Organization was held on 2nd June, 2013 at Mysore on the occasion of visit of General Secretary, AIRRBOF.

General Secretary, AIRRBOF along with Com. P. N. Madhusudhan, Central Committee Member attended the meeting on behalf of our federation. At the outset Com. H. N. Chandrasekhar, General Secretary welcomed the guests and members and expressed his great satisfaction that the General Secretary, AIRRBOF could make it possible to attend the meeting.

Invocation was rendered by one of the members. Thereafter the leaders on the dias were welcomed by fresh flowers.

Com. Bhattacharjee rendered, in his inimitable style, a talk dovetailing all recent developments, the role played by AIRRBOF on the issue of Pension Parity, the ongoing developments in the Supreme Court Case, recent developments in the salary revision talks, the spate of amalgamation & related issues. The officers present in the meeting raised lot of quarries which were also duly clarified by Com. General Secretary.

Com. P. N. Madhusudhan also felicitated the participants.

Four Officers who had retired or expected to retire by this month end were duly felicitated by General Secretary, AIRRBOF with shawl, fruits and a memento.

Thereafter, the meeting ended with vote of thanks rendered by Com. N. Nagendra Kumar, President of the Organization.

The programme was a grand success.

Circular # 21:2013 10th June, 2013

BIENNIAL GENERAL BODY MEETING OF UTTARBANGA KSHETRIYA GRAMIN BANK OFFICERS' ORGANIZATION

The Biennial General Body Meeting of Uttarbanga Kshetriya Gramin Bank Officers' Organization was conducted with much fanfare and gaiety. The Banquet Hall of Hotel Skylark in Siliguri was tastefully decorated with flowers and banners. The Hall was full with enthusiastic members hailing from far flung areas including Hills of Darjeeling.

The Conference got underway with welcome address rendered by Com. Babla Chakraborty. Thereafter, President Com. Sandip Bhattacharjee presented the scenario and painted the canvas of future action programme.

Com. M. M. Saha, General Secretary presented his detailed report on the happenings in the last biennial period. Lot of members deliberated on the General Secretary's report with seeking of clarification and adding inputs. General Secretary, thereafter, clarified all the points raised by the members. Then, statement of Accounts was placed by Com. Arun Kumar Bhattacharjee, Treasurer. Both the General Secretary's report and statement of accounts were adopted unanimously.

In the post lunch session, General Secretary, AIRRBOF rendered detailed speech containing developments on issues of restructuring of RRBs, dilution of RRBs' share capital, extension of other allowances & benefits and put special emphasis on the ongoing SLP before the Hon'ble Supreme Court on the issue of Pension Parity. General Secretary, AIRRBOF exuded confidence that with the active involvement of AIRRBOF the officers of RRBs shall be entitled

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to Pension as extended in Public Sector Banks. He also laid lot of Importance on enlisting new membership and rebuilding the organization.

Thereafter, election to the new officer bearers took place. The following have been elected unanimously:

1.	President	-	Com. Sandip Bhattacharjee
2.	Vice President	-	Com. Birendra Narayan Sarkar
3.	General Secretary	-	Com. Mohini Mohan Saha
4.	Dy. General Secretary	-	Com. Nibir Roy
5.	Organizing Secretary	-	Com. Maly Das
6.	Treasurer	-	Com. Babla Chakraborty
7.	Unit Secretary COB	-	Com. Robin Deb
8.	Unit Secretary APD	-	Com. Ashoke Roy
9.	Unit Secretary JAL	-	Com. Prasenjit Mondal
10.	Unit Secretary SLG	-	Com. Ashis Banerjee
11.	Unit Secretary DARJ	-	Com. Dipak Prodhan

The vote of thanks was rendered by Com. Sagar Bandopadhay.

The Biennial Conference remained a grand success.

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PRESS CORNER

PFC LOOKING AT 'SUBSTANTIL STAKE' IN A PUBLIC SECTOR BANK

Government-owned power sector lender Power Finance Corporation on Thursday said it is looking to buy equity stake in a public sector bank.
PFC has written to the Ministries of Finance and Power expressing its interest to pick up "substantial stake" in a public sector bank, said the company's Chairman and Managing Director, Satnam Singh.

Asked what he means by a substantial stake, Singh said, "The stake that will allow PFC to add a board member."

To pay 70% dividend

The Government lender has decided to pay total dividend of 70 per cent, which comprises interim dividend of 60 per cent and final dividend of 10 per cent.

Q4 RESULTS

PFC has reported a 58 per cent increase in its net profit during the fourth quarter of 2012-13 at Rs 1,294 crore (Rs 818 crore).

Singh said that the higher net profit is on account of its spread increasing by 66 basis points to 2.99 per cent from 2.33 per cent.

Spread is the difference between lending rate and borrowing cost. The financier gains when the difference increases.

PFC's net income in the fourth quarter 2013-14 increased by 27 per cent to Rs 4,670 crore (Rs 3,684 crore).

The company has reported non-performing assets of Rs 1,135 crore against loan asset of Rs 1.6 lakh crore as on March 31, 2013.

PFC has exposure of Rs 7,500 crore to gas-based power plant. Of this, Konaseema Gas Power Ltd is reported as non-performing asset. PFC has an exposure of Rs 368 crore to the project.

COMPLETE YEAR

In 2012-13, PFC reported 46 per cent increase in its profit after tax at Rs 4,420 crore (Rs 3,032 crore). Its income rose by 32 per cent to Rs 17,273 crore (Rs 13,037 crore).

The lender plans to borrow Rs 44,000 crore in 2013-14 up from Rs 40,000 crore in the previous year. This will be mix of rupee and foreign currency loans.

Currently, domestic loans are cheaper compared to dollar. Rupee loans are available around 8.05 per cent.

Source – The Hindu Business line May 31, 2013.

CENTRAL BANK OF INDIA BEGINS PROFILING DEFAULTERS

Central Bank of India has kicked-off an exercise to profile its defaulting borrowers. This move is aimed at assessing whether the defaulters are amiable to repay their overdue debt or should be proceeded against under the recovery law.

In short, the public sector bank is attempting to separate the wheat from the chaff in order to recover the loans that have turned sour.

Profiling of defaulters assumes urgency as the bank's bad loans increased by 16 per cent year-on-year to Rs 8,456 crore as at March-end 2013.

The field staff have been asked to complete the profiling exercise by June-end so that appropriate action, for either reviving the borrower's enterprise or initiating recovery proceedings, can be taken, said a top official.

The bank wants granular information, among others, pertaining to the viability of the defaulting borrower's business and the value of the collateral in hand.

In the current financial year, the bank is seeking to bring down its bad loans pile from Rs 8,456 crore as at March-end 2013 to about Rs 8,000 crore (after taking into account fresh slippages during the course of the year).

In case a defaulting borrower is facing genuine difficulty in keeping his enterprise afloat, either due to electricity crunch or short-supply of raw materials or lack of demand for finished goods, the bank is willing to extend fresh loan to help effect a turnaround in its fortunes.

However, fresh loan will be offered by the bank only if the borrower is able to stump up margin either on his own or gets a private equity/ strategic investor to do so.

In case a defaulting borrower wants to reach an amicable settlement with the bank and close the loan account, the bank will offer a one-time settlement. Depending on the realisable value of the security pledged with it, the sacrifice/write-off to be made by the bank on the loan outstanding is arrived at. The sacrifice/write-off will be kept at the minimum.

The bank has increased the frequency for organising loan recovery camps from once a month to twice a month at the zonal and regional office levels, said the bank official.

If a borrower has willfully defaulted on his loan and has no intention to pay back then the bank will turn up the heat. It will proceed against the borrower simultaneously under the SARFAESI Act (Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Act) and the Debt Recovery Tribunal.

Keeping up pressure on two fronts — SARFAESI Act and DRT — could possibly get the defaulter to the negotiating table.

Central Bank of India has appointed a general manager solely to effect recoveries from written-off accounts. The outstanding in written-off accounts amounts to Rs 2,400 crore.

Banks' write-off bad debt when it is considered non-collectable and they have set aside capital to cover the loan loss. When they make recoveries in such cases, it finds a positive reflection on the bank's bottom line.

Source – The Hindu Business line May 31, 2013.

IRDA MAY TIGHTEN NORMS FOR BANKS SELLING INSURANCE

Banks may find the going tough in distributing insurance policies. The insurance regulator may require them to renew at least half the life insurance policies they sell, failing which they risk losing the licence to distribute insurance products.

The renewal requirement is one of the recommendations of a committee set up by the Insurance Regulatory and Development Authority (IRDA) in order to curb mis-selling.

In 2011, IRDA had ushered in a minimum policy renewal criteria for individual insurance agents. The regulator directed insurance companies to terminate the contracts of agents who fail to get at least half the policies sold by them renewed in the subsequent year.

"We have noticed some instances of forced selling of insurance products by banks while advancing loans to customers. Hence, we are looking at calculating loss ratio (the ratios of premiums paid to the claims settled) in respect of business procured by banks so as to assess the quality of the business," said a senior regulatory official.

"One of the factors that affect persistency is the after-sale service provided to the policyholder. Currently, large number of policies are left without being serviced after the policy is sold, resulting in the policies getting lapsed," the official added.

According to IRDA data, in fiscal 2012, life insurers had to pay Rs 71,208 crore on account of surrender (withdrawal) of policies, of which, LIC paid Rs 41,531 crore and private sector insurers, the balance.

IRDA set up a committee to review the entire insurance brokers' regulations in March, after a Union Budget announcement allowing banks to become insurance brokers.

"In the committee's report to the regulator, we have suggested that in line with the requirement for individual agents, the persistency ratio in the case of life insurance policies sold through the banc assurance route should also be 50 per cent to ensure that servicing of policies by agents/ banks is sustained," said a senior official from a life insurance company.

IRDA is in the process of finalising banc assurance guidelines and is expected to come out with the final report by August this year.

Source – The Hindu Business Line June 4, 2013.

WHY ARE BANKS NOT CUTTING LENDING RATES?

Vexed with banks for not cutting their lending rates, RBI officials on Friday indicated that the bank may cap its open market operations which inject liquidity into the system. This is intended to push banks into relying less on the RBI, and to lend more aggressively.

While banks have been citing the liquidity crunch for their inaction, the high proportion of government securities in their investment portfolio have a different tale to tell. Banks essentially have been parking more than the mandated funds in gilts.

The repo rate, the rate at which RBI lends to banks, was cut three times in 2012-13, a cumulative reduction of 100 basis points. However, this rate cut hasn't been fully passed on to borrowers in the form of lower lending rates. Base rates, the rate to which all lending rates are linked, have only come down by 30-40 basis points.

But the banks' problems do seem quite real too. While loan growth slowed to 14 per cent this year, deposit growth has been even lower at 13 per cent. Thus a large portion of such deposits (77 per cent) has already being lent out.

A higher credit-deposit ratio not only constraints banks from increasing lending further, but also limits the scope for reducing deposit rates. Thus banks are not able to effectively lower the cost of funds when the RBI reduces the repo rate.

Yes, close to 30 per cent of the deposits is invested in government securities as against the current requirement of 23 per cent. Hence, bank can liquidate their investments in government securities and increase their lendable resources. Why have they not done so?

One, while the RBI's repo rate cut did little for lending rates, it had a significant impact on the yields of government securities. The 10-year G-sec gained 16 per cent over the last year. This has in turn added to the banks' treasury income, making up for some of the moderation in interest income. Liquidating G-secs will mean that banks lose out on this income.

Two, banks have been holding on to liquidity because new deposits have been hard to come by. In fact, the investment-to-deposit ratio has remained at 30 per cent levels for the last few years.

On the other hand, increasing risk of loan delinquency has seen banks go slow on new loans too. Thus, while some of the liquidity crunch for banks can be eased by selling excess government securities, higher lending risks may still limit the rebound in credit growth.

Given these constraints, any action by the RBI to further curtail liquidity can hurt banks.

Till last month, the liquidity deficit continued to remain high. Banks' borrowing through the liquidity adjustment facility (LAF), which helps them to manage temporary mismatches, still remains above RBI's comfort level of 1 per cent of net demand and time liabilities (NDTL). The RBI announced open market operations for purchase of G-secs to the tune of Rs 7,000 crore on June 7.

Source – The Hindu Business Line June 8, 2013.

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