AIRRBOF News Letter
March, 2013
Sky is not the limit, we cover it...
The Voice of All India RRB Officers' Federation
Vol - XX SILIGURI No. 03

EDITORIAL

FACTORS STRESSING BANKS

On the face of things, RBI is more sanguine about the asset quality of Indian banks than credit rating firm Moody's which has said it finds the loan classification practices weak and believes "they mask the extent of the banks' asset quality and capital challenges". Indeed, the stress scenarios Moody's outlines are a lot scarier than those in RBI's financial stability reports. But the fact that RBI is mulling the recommendations of a panel entrusted with suggesting new provisioning norms for restructured assets and hopes to put in place a tighter set of rules by end-January suggests the central bank isn't as sanguine as many believe. Meanwhile, RBI has upped the provisioning for restructured standard assets to 2.75% from 2%. Nonetheless, RBI hasn't been too forthcoming on the subject except to say that one big reason for the deterioration in asset quality has been the absence of information-sharing between between banks. It has of course reinforced this point with them while warning penal action.

While RBI may need to react to Moody's somewhat sweeping condemnation of how banks are governed, Moody's also points out that India's loan classification rules were far more lenient than in other parts of the world; it pointed out that very often bad loans were being categorised as 'restructured assets' in the process allowing banks to get away with lower provisioning. RBI needs to work on this and some of it will probably be addressed in the new rules but simply framing rules may not be enough, there is also something about the lending culture that needs to change. RBI deputy governor KC Chakrabarty, for instance, has pointed out that much of the restructuring doesn't seem transparent and, moreover, that there seems to be some element of discrimination. Neither of these is desirable but the data seems to bear out what the DG is saying: the quantum of restructured loans has hit a huge R50,000 crore between April and October this year on the back of some R67,000 crore having already been recast in 2011-12. More importantly, as the DG highlighted, there is a clear trend of larger corporates asking for easier repayment terms—restructured standard advances for medium and large industries jumped 73% in 2011-12. So either smaller companies are in less trouble or their pleas are simply going unheeded.

While the environment is no doubt tough and there could be genuine cases of companies facing a cash flow crunch, the regulator needs to usher in stricter provisioning norms quickly so that banks are not encouraged to throw good money after bad. The system can't afford any regulatory forbearance right now, it's better that banks cut their losses rather than evergreen unviable accounts. Banks have been somewhat reckless over the past few years, which is what has resulted in an unhealthy concentration of risk and it's now possible that NPAs and restructured loans could account for more than 10% of banks advances by March 2013. In some instances, like with Andhra Bank, it is at 12.5%, and at others like Bank of India and Corporation Bank, it is 10.4%. Higher credit costs will of course hurt banks' balance sheets, but this is the time to preserve capital.

ENRICH YOUR KNOWLEDGE

KNOWN YOUR CUSTOMER (KYC) NORMS:

The KYC guidelines were formulated to protect the financial system against threat of money laundering / terror financing and frauds. Considering inconvenience to public and also hindrance to the efforts at financial inclusion, RBI has modified the existing provisions as given below:

1. Opening of New Accounts: Proof of identity and address – RBI has given an indicative list of the nature and type of documents / information that may be relied upon for customer identification. The said list is only indicative and not exhaustive. For accounts of individuals, separate sets of indicative documents have been listed for identity and for address verification. Banks have been calling for separate documents for verification of identity and address even though the documents for identity proof (Passport, Drivers' License etc.) also carry the address of the individual concerned. To ease the burden on the prospective

customers in complying with KYC requirements for opening new accounts, RBI has decided that if the address on the document submitted for identity proof by the prospective customers is same as that declared by him/her in the account opening form, the document may be accepted as a valid proof of both identity and address. If the address indicated on the document submitted for identity proof differs from the current address mentioned in the opening form, a separate proof of address should be obtained. For this purpose, a rent agreement indicating the address of the customer duly registered with State Government or similar registration authority may also be accepted as a proof of address.

2. Introduction not Mandatory for opening accounts: Before implementation of the system of document-based verification of identity, as per KYC, introduction from an existing customer of the bank was considered necessary for opening of bank accounts. In many banks, obtaining of introduction for opening of accounts is still a mandatory part of customer acceptance policy even through documents of identity and addresses are provided. Since introduction is not necessary for opening of accounts under PML Act or RBI's extant KYC instructions, banks should not insist on introduction for opening bank accounts of customers.

3. Acceptance of Aadhaar letter for KYC purposes: If the address provided by the account holder is the same as that on Aadhaar letter issued by

Unique Identification Authority of India (UIDAI), it may be accepted as a proof of both identity and address.

4. Acceptance of NREGA Job Card as KYC for normal accounts: Currently, accounts opened only on the basis of NREGA Job Card are subject to limitation applicable to 'Small Accounts' resulting in inconvenience to customers, who are mostly from rural areas. Banks may now accept NREGA Job Card as an 'officially valid documents' for opening of bank accounts without the limitations applicable to 'Small Accounts'
5. Accounts with Introduction: Currently, RBI has allowed banks to open account without proof of address and identity and only on the basis of introduction, provided balance in the account is never more than Rs. 50,000 and maximum credits in a financial year in the account is limited to Rs. 100 000. Later, RBI introduced the concept of Small Accounts. In view of provisions for 'Small Accounts' being included in the PML Rules, the extant instructions for opening of 'Accounts with Introduction' stand withdrawn. For greater financial inclusion, banks should open 'Small Accounts' for all persons who so desire.

NEWS FROM AIRRBOF

Circular # 03:2013 5th February, 2013

TWO DAY NATION WIDE STRIKE TO BE OBSERVED IN RRBs ON 20TH & 21ST FEBRUARY, 2013

You are well aware through our earlier massages that United Forum of Bank Unions (UFBU) had called for observance of two days strike in the Banking

Industry on 20th & 21st February, 2013. AIRRBOF decided to respond to the call of UFBU & also called for observance of two days strike on 20th & 21st February, 2013 in all RRBs in the Country. Accordingly, strike Notice dated 1st February, 2013 had been issued to the Secretary, Department of Financial Services, Govt. of India, Ministry of Finance, New Delhi. The copy of the Notice is enclosed. The issues involved in the strike are as follows:

- In support of 10 point charters of demands of Central Trade Unions.
- Implementation of Pension Parity in RRBs.
- Immediate salary revision.
- Implementation of Compassionate Appointment Scheme.
- Control of Alarming Price Rice.
- Stoppage of outsourcing of jobs in Banking Industry.
- Stoppage of ill advised Banking Reforms.
- Stoppage of Anti worker Labour Reforms – Hands off Trade Union Rights.
- Recruitment of adequate staff to run the Branches properly to provide service to the customers.

Publicity should be made to popularize the issues amongst customers and members of public. Officers of RRBs are also requested to participate in all programs of rally & demonstrations to be observed at the call of UFBU. Officers should also arrange for picketing, in association with the members of

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the other organizations to present any forceful opening of the offices by non-strikers. On the day of strike officers should assemble in front of HO/RO etc. to participate in Rally and slogan shorting in support of the issues.

Affiliates should contact the Local Press & Media to publicise the matter of our participant in strike in support of the Nine point charter of demands. **No separate Notice of Strike needs to be issued by affiliates. A copy of the Notice issued by AIRRBOF should be handed over the Management under record.** All Affiliates / Officers are requested not to succumb to the threats, coercion and intimidation which Management may resort to foil the strike. All efforts should be made to maintain peace and harmony amongst all officers & employees. Our object is to be make the strike 100% successful. MARCH ON COMRADES – MAKE OUR STRUGGLE A GRAND SUCCESS

Circular # 04:2013 **18th February, 2013**

4TH BIENNIAL GENERAL BODY OF UTKAL GRAMEEN BANK OFFICERS' ASSOCIATION AT JEYPORE (ODISHA) ON 17TH FEB, 2013

After the recent amalgamation of Rushikulya Gramin Bank with Utkal Gramya Bank there emerged Utkal Grameen Bank spanning over 17 Districts of the State of Odisha. Our affiliate, Utkal Grameen Bank Officers' Association had emerged as a major Officers' Association.

The 4th Biennial General Body meeting of the Association took place, at the old Town Hall of Jeypore in the district of Koraput on 17th February, 2013.
The meeting was attended by officers belonging to every nook & corner of the area of operation of the Bank. Town Hall was jam-packed by members & delegates.

The open session of the conference got underway with unfurling of the AIBOC flag by Com. Bhattacharjee, General Secretary, AIRRBOF. The dias was occupied by prominent personalities & leaders including Sri Rabinaryan Nanda, Hon'ble Minister, School & Mass Education, Govt. of Odisha, Shri Baijayanta Panda, MP(Loksabha), Com. S. K. Bhattacharjee, GS, AIRRBOF, Com. D. Lenka, Vice-president, AIRRBOF, Com. C. S. Pal, General Secretary & Com. G. S. Mohanty, President of the Association.

The dignitaries present ensured the lighting of the Traditional Lamp followed by invocation program by children of a local school.
Hon'ble Minister in his speech lauded the performance of the RRBs and the lead role played by RRB officers Shri Panda, MP in his brief address talked

about ensuring changes in the way the Banking is done and assured full help to the officers.

Com. D. Lenka, Vice President, Com. J. Behra, GS, OSRRBOA briefly dealt on the issues concerning RRB officers. The retired officers were also felicitated. GS, AIRRBOF, the chief speaker. Dealt at length the issues of Pension Payment, amalgamation of RRBs and the issue of system generated NPA. He pooh poohed the role played by so called Association of RRBs and called upon the officers present to extend their full might for clinching the issue of Pension & Merger of RRBs with sponsor Bank.

The open session was concluded by presentation of Vote of Thanks by Shri P. K. Das, Member & activist .

The delegate session was conducted post lunch. The Report of the General Secretary was placed & deliberated upon. The statement of Accounts was also placed and deliberated. Both the report of the General Secretary and Statement of Account were approved unanimously.

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Shri D. Lenka, Vice-President, AIRRBOF conducted the election of the view office bearers as Returning Officers. A term of office besides with Com. G. S. Mohanty as President and Com C. S. Pal as General Secretary was elected. The meeting was a grand success.

Circular # 05:2013 **18th February, 2013**

SUPREME COURT ALLOWED ADMISSION OF SLP (C) 39288/ 2012 ON 18TH FEBRUARY, 2013

Hon'ble Supreme Court No. 2 heard the SLP(C) 39288/2012 filed by Govt. of India. Hon'ble Justice J. P. Sathasivam and Justice Jagdish Chand of Court No. 2 heard the SLP for about half an hour. Hon'ble Justices insisted on the Counsel of the Union of India that Pension need to be paid to the Officers & Employees of RRBs as allowed by two High Courts. The Counsel of Union of India pleaded that in consideration to the accumulated losses of some RRBs payment of Pension shall weaken the such RRBs and, therefore, need to be paid only to those RRBs having good financial health. The Counsel of AIRRBOF also appeared in the Court. The Counsel of the Resopondents instated that in view of the earlier judgement of the Hon'ble Supreme Court and NIT discrimination cannot be done on the basis of Profit or loss of RRBs. After hearing both the sides, Hon'ble Judges admitted the SLP and declared in the open court that the SLP need to be disposed of expeditiously within first part of Summer Vacation in May, 2013. Thereafter the judges declared that no separate notices need to be issued as the respondents are present.

Friends, the Pension case has entered the last leg of the legal battle. AIRRBOF is ready to fight it out at any cost. All Affiliates are requested to remit the Special Levy @Rs. 1000/- per member for the legal battle before Supreme Court. We must clinch our Pension issue from Supreme Court. SUPPORT AIRRBOF TO PROVIDE PENSION PARITY.

Circular # 06:2013 **26th February, 2013**

TWO DAY SUCCESSFUL NATION WIDE STRIKE OBSERVED BY AIRRBOF

You are aware that United Forum of Bank Unions (UFBU) decided to give call for two days strike on 20th & 21st February, 2013 in the Banking Industry. So far the RRBs sector is concerned UFBU advised RRB level Trade Unions to give separate notice for strike to the Govt. of India.

Accordingly, AIRRBOF give Notice to the Secretary, Department of Financial Services, Govt. of India on 1st February, 2013 that Two Day Strike shall be observed in RRBs on the following issues:

- In support of 10 point charters of demands of Central Trade Unions.
- Implementation of Pension Parity in RRBs.
- Immediate salary revision.
- Implementation of Compassionate Appointment Scheme.
- Control of Alarming Price Rice.
- Stoppage of outsourcing of jobs in Banking Industry.
- Stoppage of ill advised Banking Reforms.
- Stoppage of Anti worker Labour Reforms – Hands off Trade Union Rights.
- Recruitment of adequate staff to run the Branches properly to provide service to the customers.

Department of Financial Services (DFS), Govt. of India received due Notice from our Federation only. DFS issued a letter to all the Chairmen of RRBs enclosing a copy of the Notice served by AIRRBOF and advised Management

of RRBs to takes steps to the keep the RRBs functional. The role of some Trade Unions having alliance to INTUC and BMS remained very frustrating as they observed strike in some RRBs only. However, AIRRBOF remained stead fast in its resolve to make the strike a grand success.

Under the instruction of Chief Labour Commissioner (Central) conciliation proceedings took place in Kolkata on 18th February, 2013. We did not directly participated in the conciliation process as the representation of DFS was not ensured. In effect conciliation process remained futile.

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On the strike days i.e. on 20th & 21st February, 2013, RRBs from Kashimir to Kanyakumari and from Manipur to Gujrat observed a total strike. All the branches remained shut. Sporadic attempts by Management to keep open H.O. & R.O were partially successful. However, officers & employees remained conspicuous by absence. All other Banks also remained closed at the call of UFBU.

The Two day strike programe created lot of impact on Govt. of India and Bank Management. Even the Prime Minister appealed to the Trade Unions to withdraw the strike. However, all trade unions remained united and made the strike programe a historic success.

On behalf of AIRRBOF we congratulate each & every officer/member of RRBs for their effort to make the strike a roaring success.

Circular # 07:2013 **26th February, 2013**

GENERAL BODY MEETING OF ASSAM GRAMIN VIKASH BANK OFFICERS' FEDERATION AT GUWAHATI ON 24TH FEBRUARY, 2013

Assam Gramin Bank is the premier Bank not only in the state of Assam but also in the entire North East. Assam Gramin Vikash Bank Officers' Federation is emerging as the major organization of the officers of the Bank.

The General Body Meeting of the Federation, which was formed in December, 2010, was conducted very successfully at the Conference Hall of Hotel Bhargav, Guwahati on 24th February, 2013.

The delegate session of the conference got underway with lighting of the Traditional Lamp by Com. S. K. Bhattacharjee, General Secretary, All India RRB Officers' Federation. The report of the General Secretary and Statements of Accounts were placed by the respective office bearers. The same was deliberated upon and adopted. Com. Bhattacharjee also spoke briefly in the moves on the issues of Pension. Amalgamation of RRBs and related matters. Some of the members wanted some clarification which Com. Bhattacharjee cleared thereafter. Com. P. K. Bajurbaruah summed up the discussion. A new tem of officers were unanimously elected with Com. P. K. Bajurbaruah as Advisor, Com. Biplab Nath as President and Com. Achuyut Chakraborty as General Secretary. The newly elected Advisor, President and General Secretary address the conference. Vote of thanks was rendered by Com. B. B. Nath, Vice President, AGVBOF.

The open session was conducted in the afternoone. Welcome address was rendered by Shri B. K. Nath, Joint Secretary. Therafter, Com. S. K. Bhattacharjee, General Secretary, AIRRBOF spoke on detail on different issues in his inimitable style. Com. C. K. Taran, Vice President, AIRRBOF & General Secretary, TGBOA spoke in details on the organizational aspects and shared his experience in Tripura Gramin Bank. Com. A. Sattar, Secretary, AIBOC, Assam State Unit very aptly brought out different development taking place at the Industry Level. The concluding speech was delivered by Com. P. K. Bajurbaruah. Vote of thanks us rendered by Com. J. C. Mali, Secretary (Finance).

AIRRBOF congratulate new office bearers and pledge full help and co-operation.

PRESS CORNER

Eligible Credit Rating Agencies – Brickwork Rating India Pvt. Ltd.: Four domestic credit rating agencies viz. CARE, CRISIL, FITCH India and ICRA have been accredited for the purpose of risk weighting the banks' claims for capital adequacy purpose. RBI has decided that banks may also use the ratings of the – Brickwork Rating India Pvt. Ltd. (Brickwork) for the purpose of risk weighting their claims for capital adequacy purpose.

KYC Guidelines – Accounts of Proprietary Concerns: As per existing guidelines, various documents have been provided for customer identification procedure for opening accounts of proprietary concerns. RBI has now decided to include the following documents in the indicative list of required documents for opening accounts of proprietary concern – a) The complete Income Tax return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated / acknowledged by the Income Tax Authorities; b) Utility bills such as electricity, water, and landline telephone bills in the name of the proprietary concern.

Acceptance of NEFT inward for credit to Loan Accounts: All banks should allow the customers to choose NEFT also as one of the electronic modes of making payments towards loan EMIs / repayments.

Nomination Rules: RBI has clarified that for the various Forms (DA1, DA2 and DA3 for Bank Deposits, Forms SC1, SC2 and SC3 for Articles left in Safe Custody, Forms SL1, SL2, SL3 and SL3A for Safety Lockers) prescribed under

Banking Companies Nomination Rules, 1985 only Thumb-impression(s) shall be attested by two witnesses. Signatures of the account holders need not be attested by witnesses. Further, nomination facility is available for joint deposit accounts also.

Credit Information Bureau (India) Limited: RBI has issued 'Certificate of Registration' to Credit Information Bureau (India) Limited (CIBIL) on 5th March, 2012, to carry on the business of credit information.

Source : Latest Banking & Financial Awareness, January, 2013

Service Area Approach – Educational Loan Scheme:

RBI has advised that Service area norms are to be followed only in the case of Government sponsored schemes. Banks should not reject any educational loan application for reasons that the residence of the borrower does not fall under the bank's service area.

Interest Subvention Scheme – Monitoring of end-use of Crop Loans (November 9, 2012)

There have been reports that borrowers' of 'crop loans' where interest subvention is available have diverted the funds and are, to some extent, using the scheme as an arbitrage opportunity by borrowing at a lower rate of interest owing to the subvention available and investing them in fixed deposits and / or in other investment avenues at higher rate(s) of interest. Therefore, RBI has advised banks to ensure that all crop loans against which they are claiming interest subvention should satisfy, inter alia, the following criteria: (i)

The borrower should be an agriculturist; (ii) The rate of interest charged should be an exceed the rate stipulated by the Govt. of India; (iii) The amount of loan is fixed according to the prescribed scale of finance for agricultural loans and the loan is used for stated purpose; (iv) Seasonality is observed in regard to both disbursement and recovery. Banks should strengthen their systems for pre-sanction security and post-disbursement supervision and also consider carrying our post-disbursement audits to ensure that all crop loans for which interest subvention is being claimed are being used for the stated purpose and that there is no diversion of funds.

Opening of Branches in unbanked rural centres:

Presently, RRBs which satisfy the stipulated conditions are permitted to open branches in Tier 2 to Tier 6 centres (population up to 99,999 as per Census 2001)n without prior permission in each case, subject to reporting. However, opening of branches in Tier 1 centres (population of 1,00,000 and above) would require prior permission of the Reserve Bank, RBI has now advised RRBs to allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) centres. An unbanked rural centre would mean a rural (Tier 5 & Tier 6) centre that does not have a brick and mortar structure of any scheduled commercial bank for customer based banking transactions.

Branch Licensing – Regional Rural Banks

RRBs are permitted to undertake State Government business as sub-agents of the Sponsor Bank with the prior approval from the concerned State Government and RBI.

PROFITABILITY ANALYSIS OF INDIAN BANKS

Profitability of banks facilitates many aspects, which includes, inter alia, enhancing the ability of banks to mobilize resources from the capital market, as well as better management of nonperforming assets. In addition, sound profitability of banks enhances their ability to augment the financial inclusion process. After liberalization, Indian banks operated in a less regulated environment in terms of interest rate liberalization, reduction in reserve requirements, and entry deregulation. With the advent of complex financial products, banks' business has expanded in recent years beyond the traditional financial intermediation process. Also, off-balance sheet exposure of banks has witnessed a significant increase in recent years.

In recent years, significant variation in profitability has been observed among bank groups. Generally profitability of foreign banks was higher than that of other bank groups. Higher profitability of foreign banks could be attributed to their access to low cost CASA deposits, diversification of income as well as higher "other income". During 2011-12, foreign banks accounted for close to 12 percent of the total net profit of SCBs. As against this, their share in total assets of Indian banking sector stood at 7 percent.

To understand the source of profitability across bank groups, two types of analysis i.e. RoE analysis and Du Pont analysis can be done. The RoE analysis decomposes the profitability of banks into two components, i.e., profitability of bank assets, as captured by RoA and leverage, captured by the ratio of total average assets to total average equity. Banks' profitability can be associated with higher return from assets or higher leverage or both. While higher return on assets is always considered good, a higher leverage ratio exposes bank to the risk of insolvency.

RoE Analysis of Profitability: 2011-2012				
Bank Group	Return on Equity	Profitability of Assets	Leverage	Capital to Assets Ratio
SBI Gp	16	0.91	17.58	0.07
Nat bks	15.05	0.87	17.37	0.4
New pvt	15.27	1.57	9.72	0.27
Frn bks	10.79	1.75	6.15	6.95

The higher RoE for the SBI group and nationalized banks was associated with a higher leverage ratio, while for new private sector banks, the higher RoE was attributable to higher profitability of assets and lower leverage.

Du Pont analysis decomposes profitability of banks into two components, viz., asset utilization and cost management. Asset utilization is captured by the total income net of interest expenditure and provisions/ contingencies as percentage of average total assets. The ratio of operating expenses to average total assets indicates how efficiently a bank is using its resources and is thus termed as a parameter to understand the efficiency of cost management by banks. Better profit of banks can be attributed to better asset utilization or better cost management or both simultaneously.

Du Pont Analysis of Profitability: 2011-2012		
Bank Group	Asset Utilization	Cost Management
SBI Group	2.85	1.94
Nationalized Banks	2.35	1.48
Net Pvt. Sector Banks	3.81	2.24
Foreign Banks	4.27	2.52

According to the result of Du Pont analysis, foreign banks registered the highest RoA among bank groups, mainly on account of better asset utilization, though their operating expenses to assets ratio was also higher when compared to other bank groups.

RBI considering four alternatives to gold:

RBI is considering introducing four gold-related instruments to ease the physical demand for the yellow metal. The instruments are modified gold-deposit scheme (GDS), gold linked account, gold-accumulation plan, and gold-pension plan. Under the modified GDS, which will be suitable for mid-size investors, physical gold is deposited with banks for a definite period and interest will be paid in the form of "gold" after maturity. However, gold will not be returned in the original form. The gold-linked account will be a non-interest bearing account wherein gold will be purchased and kept abroad. The yellow metal will be hedged abroad and physical delivery of the metal will not arise. At the end of the maturity period, the customer disposes of the gold and gets equivalent of cash. This account will allow easy entry and exit. The gold-accumulation plan will be like the systematic investment plan offered by mutual funds, that is, buy gold in small quantities at regular intervals. Through the returns could fluctuate, over time the average cost of accumulation goes down. Physical delivery is quite low. The gold –pension plan will be like reverse mortgage of property. Banks will open an annuity plan with insurance companies for a definite period. Though banks will not return the jewellery, the high returns is expected to attract the gold owners.

BSE remains world's top bourse:

Leading bourse BSE has extended its lead as the world's top exchange in terms of the number of listed companies, outpacing major global peers such as NYSE, Nasdaq and London Stock Exchange by almost 100 percent. The BSE had a total of 5,174 companies listed on its platform at the end of last month, outpacing its close rival Canadian bourse TMX Group by more than 1,000 firms or over 20 percent, as per the latest data available with the World Federation of Exchange (WFF). The number of listed companies on BSE platform is almost double that of major bourses like UK's London Stock Exchange and American bourses like Nasdaq and NYSE. The National Stock Exchange (NSE) is ranked 10th with a total number of 1,660 listed companies.

Public Sector Banks must hasten with consolidation:

Seven large PSBs – State Bank of India (SBI), Punjab National Bank (PNB), Bank of Baroda (BOB), Bank of India (BOI), Union Bank of India, Central Bank of India and Canara Bank – have been assigned the responsibility of co-ordinating the activities of 19 other PSBs in six specific areas of operation. The areas of operation with scope for functional improvement human resources, business process re-engineering, e-governance, internal audit for fraud detection and protection, recovery, and asset-liability management, SBI has been given the responsibility of co-ordinating the functioning of its five associate banks. PNB is the co-ordinator for Dena Bank and Vijaya Bank, BoB for IDBI Bank and UCO Bank, BOI for Oriental Bank of Commerce and Andhra Bank, Union Bank of India for United Bank of India and Punjab & Sind Bank, Central Bank of India for Indian Bank. Allahabad Bank and Bank of Maharastra and Canara Bank for Indian Overseas Bank, Syndicate Bank and Corporation Bank. The group coordinators of the banks would interact with the Ministry on a quarterly basis.

RRBs Need to open 1,700 Branches this fiscal:

According to 'Report on Trend and Progress of Banking in India 2011-12', RRBs are required to open around 1,700 branches during 2012-13. As per the Government's advice, RRBs were to open around 2000 branches during 2010-11 and 2011-12. However, they opened 521 branches and 913 branches during 2010-11 and 2011-12, respectively.

ATM network crosses 1 Lakh Mark:

According to the National Payments Corporation of India (NPCI), the number of ATMs in India has crossed the one lakh mark. Banks have plans to install an additionally about one lakh ATMs over the next two years, raising the number of ATMs from 85. As of October, 2012 the total number of ATMs was 1,04,500. Public sector banks and the State Bank group with about 61,500 ATMs accounted for 59 percent of the ATMs. The private sector banks and foreign banks put together have about 41,800 ATMs accounting for 40 percent of the ATMs and the balance 1 percent represents about 1,150 ATMs that have been deployed by co-operative banks / RRBs. Almost all the ATMs in the country are part of NPCI's National Financial Switch (NFS) network which facilitates routing of ATM transactions through inter-connectivity between the bank's systems, thereby enabling ATM/ debit cardholders of connected bank. Nearly 200 million transactions are processed every month in NFS, of which 75 percent are cash withdrawal transactions with an average ticket size of Rs. 3,300. The balance 25 percent transactions are non-financial transactions.

Nineteen Rural Banks Merged into Eight:

In the second round of consolidation of RRBs, the Government has, merged RRBs under different sponsor banks. The number of RRBs has been reduced to 71, against 82 at the end of the last financial year. The Government plans to reduce this number to 64 by March-end and to 48 over a longer period and wants each RRB to have at least 400 branches.

70% loss cover would have wiped out PSBs' profits:

Though the Reserve Bank of India (RBI) has withdrawn the requirement for 70 percent loan loss cover on an ongoing basis from September, 2011, private sector banks, whose asset quality is better than their public sector counterparts', have maintained provision covers of more than 70 percent. According to RBI data, the provision coverage rations for public sector banks stood at 47.6 percent as of March-end, compared with 49% a year earlier. For private sector lenders, the ratio was 74.9%, compared with 74% during the corresponding period last year.

Source : Latest Banking & Financial Awareness, December, 2012

TO HALT GROWTH SLUMP, RBI CUTS CRR, REPO RATE BY 25 BPS

The Reserve Bank of India on Tuesday cut its key policy rates — repo rate and the cash reserve ratio — by 25 basis points each.

Justifying the softening of its monetary policy stance, the RBI said it is critical now to arrest the loss of growth momentum without endangering external stability.

While the 25 basis points cut in repo rate (the interest rate at which the central bank lends overnight funds to banks to tide over temporary liquidity deficit) was along expected lines, the cut in cash reserve ratio (CRR) was a bit of a surprise.

The repo rate has been reduced from 8 per cent to 7.75 per cent with immediate effect.

The CRR (the slice of deposits that banks have to park with the RBI) cut from 4.25 per cent to 4 per cent, historically the lowest level, will free up Rs 18,000 crore for banks to lend.

These cuts set the stage for banks to cut their minimum lending rate, making loans to retail, micro, small and medium enterprises, and large corporate segments a tad cheaper.

Depending on their liquidity position, banks may also cut deposit rates with a lag.

IDBI Bank was first off the block and cut its base rate as well as its benchmark prime lending rate by 25 basis points each to 10.25 per cent (from 10.50 per cent) and 14.75 per cent (from 15 per cent), respectively. The public sector bank also cut retail term deposit rates in select buckets by 25 basis points.

India's largest bank, State Bank of India, is expected to take a call on lending and deposit rate cuts at its asset-liability committee meeting tomorrow.

RBI Governor D. Subbarao said, "We are in relentless pursuit of higher growth and lower inflation." He said that if inflation and current account deficit moderate further there will be more room for monetary policy easing. However, if they go along the currently expected lines the space for monetary policy easing is quite limited.

On whether banks would cut rates, Subbarao said bankers were more forthcoming and assuring than before about the transmission taking place through lending rates.

On deposit rates, however, the signal was not uniform. While some bankers said deposit rates might come down, others said there was not much room for it.

Bankers expressed concern that there was flight of savings to the non-banking space and also substitution of savings in banks by purchase of gold. Some bankers also said that margins will come under pressure.

Given that it will take some time to reverse the investment slowdown and reinvigorate growth, the RBI has pared its GDP growth projection for FY 2012-13 to 5.5 per cent from its earlier projection of 5.8 per cent. It also revised the Wholesale Price Index-based inflation projection for March 2013 to 6.8 per cent from 7.5 per cent earlier.

Source : The Hindu Business Line, 30th January, Wednesday, 2013

BANKS MAY HAVE TO STEP UP PROVISIONING BY 5% ON REVAMPED LOAN ACCOUNTS

Banks may have to make a higher provisioning of 5 per cent in respect of new restructured standard loan accounts with effect from April 1.

This is as per the Reserve Bank of India's draft guidelines on restructuring of advances by banks and financial institutions.

The higher provision requirement could lead to banks and financial institutions to turn more circumspect in considering restructuring of standard loan accounts.

In the case of the stock of restructured standard accounts as on March 31, 2013, the central bank wants banks to step up provisioning in a phased manner — 3.75 per cent — with effect from March 31, 2014 (spread over the four quarters of 2013-14) and 5 per cent — with effect from March 31, 2015 (spread over the four quarters of 2014-15).

In November last, the central bank had increased the provision on restructured standard accounts to 2.75 per cent from 2.00 per cent.

In view of the current domestic macroeconomic situation, as also global situation, the central bank, in its draft guidelines, said it will keep in abeyance, say for a period of two years, the proposal to do away with regulatory forbearance regarding asset classification, provisioning and capital adequacy on restructuring of loan and advances.

The extant asset classification benefits in cases of change of date of commencement of commercial operations of infrastructure project loans may be allowed to continue for some more time in view of the uncertainties involved in obtaining clearances from various authorities and importance of the sector in national growth and development.

Promoters' sacrifice and additional funds brought by them for restructuring should be a minimum of 15 per cent of banks' sacrifice or 2 per cent of the restructured debt, whichever is higher.

Promoters' personal guarantee should be obtained in all cases of restructuring and corporate guarantee cannot be accepted as a substitute for personal guarantee.

Source : The Hindu Business Line, 1st February, Friday, 2013

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