



Sky is not the limit, we cover it...

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AIRRBOF News Letter

September, 2013



**The Voice of All India
RRB Officers' Federation**

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EDITORIAL

THE PROMISE OF CHANGE

Central bankers are generally averse to leaving behind a reputation of having been 'soft' on inflation. This is certainly true of the soon-to-retire Reserve Bank of India Governor Duvvuri Subbarao. His tenure has been marked by hawkishness as far as inflation goes, to the extent of putting the RBI on a collision course with a more growth-focused but fiscally imprudent Government. Subbarao's successor Raghuram Rajan, who will take over on September 4, has a reputation in some quarters of privileging growth over inflation. However, it is pertinent to recall that he was chief economist at the International Monetary Fund and recommended, as head of the high-level committee on financial sector reforms in 2008, that the RBI have a low inflation target as its "single objective". Moreover, the RBI Governor's job comes with its own compulsions and priorities, which may place a limit on how much he can deviate from an orthodox monetarist approach.

However, the state of the Indian economy demands a degree of deviation. Until a couple of months ago, it was the perceived threat from inflation that was holding back the RBI from reducing policy rates. Since then, the exchange rate volatility has prompted the central bank to not just stall but reverse a calibrated monetary easing cycle. The strategy of trying to fix the rupee by tightening domestic liquidity and raising short-term interest rates hasn't worked at all. The rupee is today lower than what it was a month ago when the RBI announced measures to restore "stability" to the forex markets. Thankfully, the 2008 committee that Rajan chaired did not particularly favour central intervention in currency markets, while correctly noting that the exchange rate should go "where fundamentals [read current account deficit] say it must". One hopes the policy of targeting the exchange rate is something that he will forego.

That leaves inflation, where Rajan can take comfort from a munificent and well-distributed monsoon this year. By the time he assumes office, the kharif crop would have begun arriving in the mandis. The expected bumper harvest should take care of the RBI's biggest bugbear, food inflation, and set the stage for the resumption of policy rate cuts. What is needed is a combination of monetary loosening and fiscal tightening, in the form of

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redirecting government expenditure towards investment in railways, roads and other infrastructure, to revive the stalling growth engine. This requires coordinated action from the RBI and the Finance Ministry and a change from the virtual breakdown in communication between Mint Street and North Block over the past couple of years. The Government couldn't have chosen anyone better than Rajan as RBI Governor; but its responsibility does not stop just there.

ENRICH YOUR KNOWLEDGE

HATS OFF TO THE WHISTLE BLOWERS

Two incidents which occurred last month deserve a deeper understanding by all citizens including the bank employees. The first incident was the leaking by a former employee of the US Central Intelligence Agency, the 29 year old Edward Snowden, of classified information about the surveillance undertaken by USA all over the world. The dare devil action on the part of Snowden risking his life was driven by his firm conviction that privacy is every citizen's inalienable right. The consequences of his exposure are very serious for him personally: he will be hounded out by the US power; he may be tried for treason against the 'State', he may not return to his home for the rest of his life which may be, he feels, shortened.

The second incident was at home and in the banking industry. Devidas Tulzapurkar an employee union leader in Bank of Maharashtra (BoM) had written a letter to the Reserve Bank of India as the regulator about certain serious irregularities in sanction of huge loans to a corporate client by the Chairman and Managing Director of BoM. Instead of protecting his identity, a bureaucratic RBI called for BoM's comments on the complaint thus exposing the complainant to retributive action. Exactly the same happened early June when the BoM management initiated disciplinary proceedings against him in connection with the republication 19 years' ago, in the union's journal, of a satirical verse on Gandhiji written by someone else and already published elsewhere.



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Both the RBI as regulator and Central Vigilance Commission as the national watchdog on corruption in public sector have been dragging their feet in matters of corruption in high places in the public sector banks. Although there is a scheme of whistle blowing in the banks, the person taking the courage in the public interest seldom gets protection from intimidation and disciplinary action from an unscrupulous management. A couple of years ago a senior executive in Central Bank of India who blew the whistle against the misdeeds of the Chairperson (CMD) of the Bank by writing a complaint to CVC was himself suspended for such writing. An intervention by judiciary helped to end the intimidation; but the damage was already done. The question was how did the CMD come to know who had written the complaint to CVC unless some authority had divulged the information to the CMD? In another case despite the unequivocal finding of malfeasance by the CMD of another bank in a direct enquiry by CVC, he was allowed to go scot-free. The efforts by the whistleblowers in that bank came virtually to a naught so far as the action was concerned.

The tragic stories of S. Manjunath and Satyendra Dubey who paid through their lives for blowing the whistles would constantly haunt the conscience of informed citizens of the country. The demand of anti corruption crusaders during the struggle of 2011 to enact an effective Lok Pal law with protection to whistle blowers assumes greater significance today. Despite an assurance from the Central Government to pass an effective law, there is no forward movement in that direction. As a result, victimization, sometimes elimination of conscience keepers like whistle blowers will continue to plague our society.

In this background, unions should strongly react against the acts of BoM management and the callousness of RBI as the supposed guardian of financial institutions.

In the meantime three cheers to people like Edward Snowden and Devidas Tulzapurkar and I hope law will not be twisted to penalize them for their courageous acts with no self interest.

Source – Officers' Voice, July 2013.



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EXCERPTS FROM AIRRBOF CIRCULARS

Circular # 24:2013

8th August 2013

HANDLING CHARGE ON DISBURSEMENT OF MGNREGS BY REGIONAL RURAL BANKS

We reproduce hereunder the text of the letter written by the Federation on the captioned subject to the Secretary, Department of Financial Services, Govt. of India for your information & necessary action.

QUOTE

We would like to bring to your notice the fact that branches of RRBs are the principal payment gateway of disbursement of payment made under MGNREGS. This huge task is being undertaken by RRBs for which no handling charge is paid. We understand that for similar task Dept. of Posts is paid handling charge.

We, therefore, huge upon you to take appropriate action so that Regional Rural Bank are also paid handling charge for undertaking the huge task.

UNQUOTE

Circular # 25:2013

12th August 2013

MEETING WITH THE NEGOTIATING COMMITTEE OF IBA

We reproduce hereunder the text of All India Bank Officers' Conference Circular No. 40, dated 12th August, 2013.

QUOTE

Meeting of the Negotiating Committee of IBA with the representatives of Officers' Associations / Workmen Unions was held on date at 11.00 a.m. in the Committee Room of IBA at Mumbai. We reproduce hereunder the circular No. 04 dated 12/08/2013 issued by the convener of UFBU detailing therein the developments of the meeting:

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BIPARTITE TALKS WITH IBA

“Another round of bipartite talks took place today in Mumbai between IBA and UFBU on our demands for wage revision. IBA was represented by their Negotiating Committee led by its Chairman Shri T M Bhasin. UFBU was represented by all our nine constituent unions. The meeting condoned the death of Com. R J Sridharan, Chairman, AIBOA, who was in the negotiating committee till 9th Bipartite Wage Revision.

The meeting was held in a cordial atmosphere and discussions were fruitful. In the day-long discussions held, satisfactory decisions on some of the important issues could be arrived at. Continuing the discussions of the last round of talks held on 7th June, 2013, we emphasised the need for IBA to expedite and conclude the settlement in a time bound manner. We also asked them to react and respond to the issues like date of effect for commencement of the revised wages, consumer price index point up-to which Dearness Allowance is to be merged with basic pay for construction of revised pay scales, quantum of wage revision, etc.

DATE OF EFFECT: In response, the IBA agreed that the new wage settlement would be effective from 1st November, 2012, i.e. the date from which the 10th Bipartite Settlement is due.

MERGER OF DA FOR CONSTRUCTING REVISED PAY SCALES: IBA explained their constraints to consider merger of Dearness Allowance at higher index points. After prolonged discussions and on the insistence of the UFBU for merger of D.A at a higher level to enable construction of Pay Scales in a reasonable manner looking to the Pay Scales of employees and officers in comparable sectors, IBA agreed and conceded to merge Dearness Allowance upto 4440 Consumer Price Index i.e. 401 slabs and construct new pay scales accordingly.

INCREASE IN WAGE LOAD: On the offer of the wage load increase, IBA wanted to study the cost impact of the merger before responding. However, the UFBU reiterated its demand that the offer should be exclusive of superannuation cost and improvements in other welfare measures. IBA indicated that the same would be kept in mind by them.



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REIUBURSEMENT OF HOSPITALISATION EXPENSES: To our demand for 100% reimbursement of hospitalisation expenses incurred by the employees/officers for self and eligible family members, IBA offered introduction of Mediclaim policy facility under which hospitalisation expenses would be reimbursed by the insurance company upto Rs. 2 lacs for sub-staff, Rs. 3 lacs for clerical staff and Rs. 4 lacs for officers per year. Looking to the various implications of switching over to the new scheme and the need to examine the pros and cons of the scheme, we said that a detailed study is required on the contents of the scheme offered before responding.

MANAGEMENT'S ISSUES: The management's issues like introduction of cost to company method, Fixed Pay and Variable Pay concept were discussed and UFBU has given its strong views against the same. However, the matter remained inconclusive.

COMPASSIONATE GROUND APPOINTMENT SCHEME: Another vital issue, much dearer to all the bank employees, which is relentlessly being pursued by the UFBU is restoration of compassionate appointments in the Banking Industry. IBA informed us in today's meeting that its recommendations for introduction of compassionate appointment scheme on similar lines prevailing in Central Government for its employees has been sent to Ministry of Finance, Govt. of India for its approval. No doubt, it is an important step in the direction of restoring compassionate appointments in the Banking Industry which is a long pending demand. While thanking the IBA for the positive step taken in this direction, we earnestly hope that the Government would accord its approval at the earliest.

Comrades, in today's discussions, we could arrive at conclusion on two vital issues i.e. date of effect and merger of dearness allowance. We thank the team of the Negotiating Committee of IBA for this forward movement in the discussions.

The date for the next round of discussions will be decided in due course".

In response to one of the issues of Management, we strongly clarified that we have a right to negotiate for our members irrespective of their scales. The issue remained unresolved. We shall keep you informed of the developments.

UNQUOTE



Circular # 26:2013

20th August 2013

**UFRRBU HELD ITS MEETING IN NEW DELHI
ON 18TH AND SUBMITTED MEMORANDUM TO CHAIRMAN,
STANDING COMMITTEE ON FINANCE ON 19TH IN NEW DELHI**

United Forum of RRB Unions (UFRRBU) held its Meeting in New Delhi on 18th August, 2013. The Meeting was presided over by Shri K. Rajeev. The Meeting discussed host of issues emerging out as common and took several important decision. On the issue of Pension parity Case before the Hon'ble Supreme Court, UFRRBU decided to adopt uniform approach and accordingly brief their respective counsels. It was also decided to submit Memorandum to Shri Yashvant Sinha, Chairman, Standing Committee on Finance to highlight the wrong doing of Govt. of India in tabling the RRB Act Amendment Bill, 2013 in an effort to privatise the RRBs. It was also resolved to approach United Forum of Bank Unions (UFBU) to take cudgels along with the RRB fraternity to fight for the cause of workforce of RRBs.

On 19th August, 2013 afternoon a delegation of leadership of different National Level Associations and Unions under the banner of UFRRBU met Shri Yashvant Sinha, Chairman, Parliamentary Standing Committee on Finance and held detailed discussion on the Govt. of India move to amend RRB Act, 1976 by tabling RRB Amendment Bill, 2013. A detailed memorandum was submitted by the delegation highlighting the different facets of the issue. Shri Sinha was found to be very receptive and positive. He assured to take appropriate action and agreed to allow UFRRBU a hearing before the Standing Committee.

The Memorandum submitted to Shri Yashvant Sinha is enclosed.

UFRRBU shall again meet on 11th September, 2013 in New Delhi to take stock of the situation and decide further course of action.

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MEMORANDUM

19th August, 2013

To
Sri Yeswant Sinha,
Hon'ble Member of the parliament and
The Chairman
Standing Committee, Finance, GOI.
New Delhi.

Reg: **Our submission against RRB Act amendment Bill 2013.**

Respected Sir,

In the name of strengthening Regional Rural Banks (RRBs), the government of India, on Monday (22.04.2013), introduced a Bill in the Lok Sabha to raise their authorized capital ie.5 crore, by 100 times to Rs 500 crore and for this purpose disinvestment of RRB's equity is planned.

Presently the centre holds 50 per cent stake in RRBs, while 35 per cent and 15 per cent are with the sponsor banks and state governments, respectively. The Regional Rural Banks (Amendment) Bill, 2013, seeks to allow RRBs to raise capital from sources other than the central government or the state government or the sponsor bank.

In the RRB ACT amendment Bill 2013 ,it is stated, "In view of growing business of the Regional Rural Banks and expansion of their role in both qualitative as well as quantitative terms in extending banking services in rural areas, a need was felt to amend the Regional Rural Banks Act, 1976 to strengthen their capital base and improve their overall capabilities,"_It is also told," The shareholding of the central government and the sponsor bank should not be less than 51 percent"

Sir, we would like to put in your kind notice that in Preamble of RRB Act, it has been stated-" An Act to provide for the incorporation, regulation and winding up of Regional

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Rural Banks with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto. ACT NO. 21 OF 1976. 9th February, 1976". Under this doctrine RRBs were established with an avowed objective to eradicate MAHAJANI PRATHA (Private Money lending system) from villages which was a curse in promoting Badhua Majdoori (bonded labourer method) in remote rural region, in between Commercial and Co-operative Bank.

Under this doctrine, from a modest beginning of 5 RRBs with 17 branches covering 12 districts in December, 1975 the number of RRBs increased to 196 RRBs with 14,446 branches in 1991 operating in 518 districts across the country. After a phase of consolidation starting from September, 2005, the number of RRBs was reduced from 196 to 82. In the current phase of consolidation which began in October, 2012 by amalgamation of RRBs across sponsor banks within a State, the number of RRBs has further reduced to 61 RRBs as on date with over 18000 branches in 638 districts.

But, unfortunately GOI, by way of disinvestment of equity upto 49%, once again intended to put RRBs in reverse gear with a view to make freedom to corporate for loot in rural region by a shortest way to approach cheaper rural resources.

Sir, for your kind information, we would like to point out that CASA deposit of RRB is 57% and corporate sector wants to misutilize it for their vested interest, where as RRBs are utilizing this resource for priority sector / agriculture sector lending on cheaper rate of interest to rural masses. Presently the priority sector lending of Commercial banks is 37.2 % whereas RRBs lending in this sector is more than 80.8%. There is profound Progress in Modes of FI delivery, there is remarkable progress in KCC and GCC advancement both in terms of accounts and amounts as well .(RBI repots are Annexed herewith)

Sir, just before a quarter, A review meeting of Regional Rural Banks (RRBs) was taken by Hon'ble Finance Minister with the Chairmen of RRBs and Executive Directors (EDs) of Sponsor Banks at Vigyan Bhawan, New Delhi on 17.01.2013.

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Finance Minister in his inaugural address stated that the RRBs perform an important and unique role in the overall credit network of the country. By meeting the credit needs of the section of the population who otherwise would not get access to these services, the RRBs enable spread of institutional credit facilities in the rural areas. Finance Minister made the following observations about the performance of RRBs:

Despite the impressive expansion of branch network by RRBs in the past, there remained scope for adopting a more aggressive approach for opening of new branches.

The drastic fall in the number of RRBs incurring losses was commendable and all steps would be taken to ensure turnaround of the three remaining RRBs who continue to register losses. Going forward, the RRBs need to take necessary steps to wipe out the accumulated losses in a time bound manner.

NPAs were a concern; however, as in the case of PSBs, to some extent, rising NPAs are expected in the prevailing economic conditions. However, there is a need to take concerted efforts to act against willful defaulters.

While average CD ratio for the RRBs taken together was above 60%, there was need to further raise it as well as ensure that individual RRBs meet a minimum threshold ratio.

RRBs are playing an important role in the Direct Benefit Transfer (DBT) scheme of the government. The 24 RRBs which are presently working in the 51 districts identified for Phase-I of the scheme are performing an important role in ensuring success of the scheme.”

In view of above there is no need of disinvestment of Govt. equity to any extent rather state Govt.'s total 15% equity may be taken over by Central Government of India in the larger interest of rural development.

We further appeal to your honour that we may be provided opportunity by the Standing Committee for submission of detail facts and figures against proposed RRB Act amendment Bill and for this kind opportunity we shall be ever obliged.

Circular # 27:2013

20th August 2013

**PENSION PARITY CASE BEFORE SUPREME COURT –
FEDERATION PREPARES TO REBUT GOVT. OF INDIA
MOVE TO DISCRIMINATE AMONG RRBs ON PENSION PAYMENT**

You are aware that on the last day of hearing before Supreme Court on 9th July, 2013, Govt. of India submitted proposal before the Hon'ble Supreme Court that they are keen on Pension Payment but with the rider that Profit/Loss shall be the determining factor along paying capacity. The move of the Govt. of India was challenged before the Supreme Court by AIRRBOF.

We have come up with host of papers which shall form the weaponry of the AIRRBOF to fight the Govt. of India before the Supreme Court. Series of discussion was held with our Senior Legal Counsels on this aspect during the stay of the General Secretary in New Delhi from 16th to 19th August, 2013. Detailed papers are being made ready.

Next date of hearing is 11th September, 2013. The hearing is expected to continue for couple of days. We already requested our affiliates to clear the Legal Levy to enable the Federation to meet the expenses of the Supreme Court Case. Lot of affiliates is yet to clear the dues. We once again request all the affiliates to remit Legal Levy Immediately.

WATCH OUR NEXT COMMUNICATION ON THE ISSUE.

BANKING NEWS

CENTRAL BANK GETS NEW CMD

Rajeev Rishi took charge as Chairman and Managing Director of Central Bank of India on 1st August, 2013. According to a Finance Ministry notification, Rishi's appointment is for a period of five years from the date of taking charge or until further orders, whichever is earlier. Prior to his appointment, he was the Executive Director of Indian Bank (from October 2010 to July-end 2013). Before joining Indian Bank, Rishi was the General

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Manager of Oriental Bank of Commerce. M.V. Tanksale demitted office as CMD of Central Bank of India following superannuation on 31st July.

Source – the Hindu. Business Line, 2nd August, 2013.

UNIFORMITY IN INTERSOL CHARGES (JULY 1, 2013)

With the introduction of Core Banking Solution (CBS), it is expected that customers of Banks would be treated uniformly at any sales or service delivery point. It is, however, observed by RBI that some banks are discriminating against their own customers on the basis of one branch being designated as the 'home' or 'base' branch where charges are not levied for products/ services and other branches of the same Bank being referred to as 'non-home' branches where charges are levied for the same products/ services. The charges generally referred to as 'Intersol' charges, are also not uniform across home/ non-home branches. This practice followed by some Banks is contrary to the spirit of the Reserve Bank's guidelines on reasonableness of Bank charges. As 'Intersol' charges are charges levied by the Bank to cover the cost of extending services to customers by using the CBS/Internet/Internet platform, the cost should be branch/customer agnostic in principle. RBI has clarified that cash handling charges may not be included under intersol charges.

In order to ensure that Bank customers are treated fairly and reasonably without any discrimination and in a transparent manner at all branches of Banks/service delivery locations under CBS environment, RBI has advised Banks to follow a uniform, fair and transparent pricing policy and not discriminate between their customers at home branch and non-home branches. Accordingly, if a particular service is provided free at home branch the same should be available free at non home branches also. There should be no discrimination as regards intersol charges between similar transactions done by customer at home branch and those done at non-home branches.

Source – Latest Banking & Financial Awareness: July 2013

PRIORITY SECTOR LENDING BANK LOANS TO MFIS FOR ON-LENDING

As per extant guidelines, on Priority Sector Lending, Banks credit to MFIs for on lending will be eligible for categorization as priority sector advance if aggregate amount of loan, extended for income generating activity, is not less than 75% of the total loans given by MFIs. On a review of the above provision, RBI has decided that bank credit to MFIs for on lending will now be eligible for categorization as priority sector advance if aggregate amount of loan, extended for income generating activity, is not less than 70% of the total loans given by MFIs.

Source – Latest Banking & Financial Awareness: July 2013

ACKNOWLEDGEMENT BY BANKS AT THE TIME OF SUBMISSION OF FROM 15-G / 15-H

Banks are not required to deduct TDS from depositors who submit declaration in Form 15-G/15-H under Income Tax Rules, 1962. However, there have been instances that despite submission of Form 15-G/15-H by customers, Banks are deducting tax at source, at times, causing inconvenience to customers. Such instances arise because either that forms are misplaced or a track is not kept of forms received in the branches. With a view to protect interest of the depositors and for rendering better customer service, RBI has advised banks to give an acknowledgement at the time of receipt of Form 15-G/15-H. This will help in building a system of accountability and customers will not be put to inconvenience due to any omission on part of the banks.

Source – Latest Banking & Financial Awareness: July 2013

LEGAL AUDIT OF TITLE DOCUMENTS IN RESPECT OF LARGE VALUE LOAN ACCOUNTS

As per extant guidelines, Banks should put in place a system wherein the concurrent auditors are required to look into and report, inter alia, on the genuineness of the title

documents especially for large value loans. On a review, RBI has decided that the Banks should also subject the title deeds and other documents in respect of all credit exposures of Rs 5 crore and above to periodic legal audit and re-verification of title deeds with relevant authorities as part of regular audit exercise till the loan stands fully repaid. The Banks may furnish a review note to its Board/Audit Committee of the Board at quarterly intervals on an ongoing basis giving therein the information in respect of such legal audits which should cover aspects, inter alia, like number of loan accounts due for legal audit for the quarter, how many account covered, list of deficiencies observed by the auditors, steps taken to rectify the deficiencies, number of accounts in which the rectification could not take place, course of action to safeguard the interest of Bank in such cases, action taken on issues pending form earlier quarters.

Source – Latest Banking & Financial Awareness: July 2013

IIM GRADUATE RAGHURAM RAJAN BECOMES NEW RBI GOVERNOR

IIM graduate Raghuram Rajan and RBI Governor. Raghuram Rajan has become the new RBI Governor. He did his graduation from **Indian Institute of Technology, Delhi** (IIT-Delhi) in electrical engineering and at IIM he pursued Post Graduate Diploma in Business Administration.

The 50 year old has also completed his PhD in management from the Massachusetts Institute of Technology (MIT) in 1991 for his thesis titled "Essays on Banking." He has also been gold medalist at IIM and IIT. Rajan has also been the youngest economic-counselor and chief economist at the IMF from October 2003 to December 2006. In 2005 he had predicted the 2008 financial crisis.

The new Governor may have a number of issues in front of him. According to Vaibhav M, banking professional, "Rajan will have a lot of challenges like rising above the short sighted vested political interests to guide monetary policy. He will also need to balance the balance the Current Account Deficit (CAD), depreciating rupee, inflation and real economic growth

without sufficient political support. He will also need to balance the need for economic growth with the risk of stoking inflation".

SBI EXPECTS 20% CREDIT GROWTH IN CURRENT FISCAL

State Bank of India (SBI) on Friday said it expects to clock 20 per cent growth in credit and 16 per cent expansion in deposits in the current financial year. "New corporate demand (for credit) is low but retail demand is very strong.

Credit growth would be 20 per cent and deposit growth 16 per cent (in FY14). We are refinancing for good corporate accounts as our rates are cheaper compared to others," SBI Chairman, Pratip Chaudhuri said. He was speaking to reporters on the sidelines of an award function organized by Institute for Development & Research in Banking Technology (IDRBT) here. On net interest margin, a key profit indicator for lenders, Chaudhuri said "NIM is comfortable up to March and we think we will be doing well. Outlook (for NIM) that we have given at 3.6 per cent."

The liquidity position in the financial system is good, the head of India's largest lender said.

Source – The Times of India, 2nd August, 2013.

RBI PENALISES AXIS BANK, HDFC BANK AND ICICI BANK

The Reserve Bank has imposed a monetary penalty on Axis Bank (Rs.500.10 lakh), HDFC bank (Rs.430 lakh) and ICICI Bank (Rs.100.10 lakh) for violating Reserve Bank of India instruction. The penalties have been imposed in exercise of power vested in the Reserve Bank under provisions of section 47(A)(1)(c) read with Section 46(4)(i) of the Banking Regulation Act, 1949. RBI had carried out a scrutiny of books of accounts, internal control, compliance systems and processes of these three banks at their corporate offices and some branches during March/April 2013 to investigate into the allegations of contravention of KYC/AML guidelines against them. The scrutiny of these three banks revealed violation of certain regulations and instructions issued by Reserve Bank of India, Namely,



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- Non-observance of certain safeguards in respect of arrangement of “at par” payment of cheques drawn by cooperative Banks,
- Non-adherence to certain aspects of know your customer (KYC) norms and anti money laundering (AML) guidelines like risk categorization and periodical review of risk profiling of account holders,
- Non- adherence of KYC for walk in customers including for sale of third party products, omission in filling of cash transaction report (CTRs) in respect of some cash transactions, sale of gold coins for cash beyond Rs.50000
- Non-obtaining of permanent account number (PAN) card details or form 60/61 as required,
- Non-verification or source of funds credited to a few non-resident ordinary (NRO) accounts, failure to re-designate a few accounts as NRO accounts through required, non-submission of proper information called for by the Reserve Bank, etc.

Source – Latest Banking & Financial Awareness, July, 2013.

NABARD SUGGESTS THREE-WAY JOINT VENTURE FOR WOMAN’S BANK:

According to Nabard, the woman’s Bank, mooted in the union Budget for Fy2014, should be floated as a joint venture between the Government, five-six major public sector banks and a development financial institution. The Government should hold 26 per cent stake in the proposed Bank, with will be by woman exclusively for woman, while public sector banks and Nabard will together hold 74 per cent. The objective of the proposed bank as outlined by the budget, will be to lend mostly to woman and woman-run businesses, support woman self-help groups and woman’s livelihood, employ predominantly woman, and address gender related aspects of empowerment and financial inclusion.

Source – Latest Banking & Financial Awareness, June, 2013.

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PRESS CORNER

RBI SOFTENS G-SEC BLOW, TO BUY BONDS WORTH RS. 8000 CRORE

To lend a hand to Banks facing huge investment losses, the Reserve Bank of India today announced a set of measures, including purchase of long-term G-Secs worth Rs 8,000 crore on 23rd August, 2013.

It will also allow Banks to spread the capital required to be set aside towards erosion in the value of Government securities over the remaining period of the current financial year.

Attributing the losses in Banks' Government Securities (G-Secs) portfolio partly to 'abnormal market conditions', the RBI hinted that the losses may be largely recouped going forward. This is a signal to the market that the Central Bank will try and soften interest rates.

In a major relief, the RBI said Banks can spread the capital required to be set aside towards erosion in the value of G-Secs held in two short-term investment buckets — available for sale and held for trading — equally over three quarters of the current financial year.

The RBI said Banks can continue to park G-Secs aggregating 24.5 per cent of their deposits in the held-to-maturity (HTM) investment category. Securities parked in HTM do not require banks to set aside capital even if there is erosion in their value. Current regulations require banks to bring down the securities in the HTM category from 25 per cent to 23 per cent of their deposits in a phased manner. This requirement stood at 24.5 per cent of deposits as at June-end 2013.

Further, within the above HTM limit, Banks have been allowed to transfer securities from the available for sale and held for trading investment categories.

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Banks will be relieved that they have been given the option to transfer the securities at the valuation as on July 15, the day when the RBI announced liquidity tightening measures to prop up the rupee.

The Central Bank said the issuance of cash management bills will be calibrated/scaled down to keep the money market rate around 10.25 per cent until volatility in the rupee eases.

The G-Sec rallied on 20th August, 2013, apparently on the back of RBI intervention. The benchmark 7.16 per cent G-Sec maturing in 2023 rose by about Rs. 2, with the yields softening by about 33 basis points.

According to S. Srinivasaraghavan, Head of Treasury, Dhanlaxmi Bank, the RBI's measures will boost the confidence in the bond market. G-Sec prices could rally by as much as Rs. 2 on 21st August, 2013.

Source – The Hindu. Business Line, 21st August, 2013.

SBI WILL MERGE AN ASSOCIATE BANK BY END SEPT.

State Bank of India will merge one of its Associate Banks by the end of September, marking one more step towards creating a global-sized Indian Bank.

In 1998, the RBI-appointed Narasimham Committee on Banking Sector reforms had recommended restructuring of the banking system to create three-four large Banks, which could become international in character, and 8-10 national and local Banks.

SBI, the country's largest lender, is ranked 60th globally.

SBI had earlier said it will absorb all the Associate Banks in a phased manner.

SBI has five Associate Banks — State Bank of Hyderabad, State Bank of Mysore, State Bank of Travancore, State Bank of Bikaner and Jaipur and State Bank of Patiala.

The outgoing SBI Chief, Pratip Chaudhuri, clarified that the bank to be absorbed now will definitely not be State Bank of Hyderabad because of the tense atmosphere in Andhra Pradesh over the bifurcation of the State.

“Since our retail deposit base is strong, we will absorb a Bank whose retail base is weak,” Chaudhuri said.

He, however, did not name the subsidiary, which will be lapped up.

Sources, who did not wish to be named, said the Bank which will merge with SBI could either be State Bank of Patiala or State Bank of Mysore.

Source – The Hindu. Business Line, 13th August, 2013

EPFO EYES 3-DAY CLAIM SETTLEMENT

In a major overhaul of operation to lift its sagging image, EPFO has set yet another deadline of July 1 to settle all pending claims and may set a virtually impossible target to refund dues to subscribers within three days from all its centres across the country.

In an internal circular, EPFO’s financial advisor and chief accounts officer, Sanjay Kumar directed all Regional Offices to launch a “pendency clearance drive” to settle all claims received before June 15. “This target should be achieved by July 1, 2013, by adopting all possible measures,” he said, referring to about 5.39 lakh claims still pending as on June 11. Delays in withdrawal and transfer of funds from one account to another have eroded investor faith in (EPFO) and shifted many new generation employees towards the new pension system (NPS) regulated by (PFRDA). Also delays in setting claims have raised costs for the EPFO as the fund has to pay interest even if an account is inoperative for three years, which prevented the fund from offering more than 8.5% return in 2012-13 as compared with the 12-14% return offered by NPS. During 2012-13, EPFO has settled 1.08 crore claims of which 12.62 lakh claims took more than 30 days to get settled and another 1.41 lakh took more than three months. After a Speedy computerization drive and launch of electronic challan-cum-receipt (ECR) or e-challan system which has been complied by

80% of the employers, at least 20 regional officers of EPFO have been able to settle claims within 3 days of receipt of the applications as against the mandated 30-day deadline. EPFO now expects all offices to replicate the same efficiency. During 2013-14, the EPFO circular said about 1.2 crore claims are likely to come up.

Source - The Indian Worker July 01-15, 2013

RBI PROPOSES TOUGH RULES FOR BANKS OFFERING ADVISORY SERVICES

The Reserve Bank of India (RBI) has proposed tough norms for banks involved in wealth and portfolio management services (W/PMS), mandating them to segregate sales and advisory activity, and threatened to bar them from money markets for violation of guidelines.

It plans to put a blanket ban on the practice of bank staff earning incentives for selling third-party products, since it promoted mis-selling and encourages structuring transactions to help customers evade tax, and fraudulent transfer of funds.

Cash transaction for third-party insurance and mutual fund investments will be capped at Rs 50,000 and the payment should be directly debited from the customer's account and not with cheques from another bank.

"Conflict of interest arises mainly from the juxtaposition of the marketing, distribution function and the advisory or funds management function," says the draft guidelines on wealth management. "To address the issue of conflict of interest arising from the single entity conducting both the activities of advisory, fund management as well as marketing, it is proposed to segregate the two functions."

RBI's draft comes after a series of fraud charges in banks by clients and a sting operation by online portal Cobrapost.com which revealed bankers' eager to facilitate cash transactions and compromise on Know Your Customer (KYC) norms. Customers at Citigroup, HSBC and Standard Chartered have accused the bank staff of cheating them and the central bank had penalised some after a probe.

"Banks offering wealth management services are exposed to reputational risks on account of mis-selling of products, conflict of interest, lack of knowledge and clarity about products and frauds," the proposal said. "As observed from the recent allegations, WMS activities as well as marketing third party products can expose banks to serious reputational risks."

In December 2010, a Citibank employee, Shivraj Puri, was accused of luring 40 high net-worth individuals including the Munjals of Hero Motocorp to invest in a bogus investment scheme on the pretext of high returns. Staff at HSBC and Standard Chartered also faced similar charges. RBI has also emphasised on training on bank personnel before getting engaged into third-party product marketing.

It told banks to put grievance redressal machinery and compensation policy related to mis-selling, agency services and service defaults. RBI has been concerned over violation of KYC guidelines, mis-selling of products that are unsuitable for the client, conflict of interest between the marketing and advisory/financial management function, and lack of robust risk management systems and procedures leading to frauds.

Source: The Economic Times, 29th June, 2013.



Sky is not the limit, we cover it...

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