JULY, 2014

AIRRBOF News Letter

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

The Voice of All India RRB Officers' Federation

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EDITORIAL

PSBs NEED IMPROVED GOVERNANCE STRUCTURES

On 22nd February, Ms. Archana Bhargava, Chairperson of Kolkata based United Bank of India resigned from the post. She was relieved within no time by the Ministry of Finance, accepting her voluntary retirement, a rare gesture which is not normally made available to any ordinary officers who seek voluntary retirement. The sudden exit of Ms. Bhargava raised many eyebrows. It is reported that the Bank's Non- Performing Assets (NPAs) went up to Rs.8546 crore in December 2013 from Rs.2964 crore in March 2013, leading to the Bank registering a loss of whopping Rs. 1238 crores. This has eroded the Bank's Tier-I capital to 5.6% as against the minimum of 6.5% prescribed by RBI by March 2014 under Basel-Ill. Even though the Bank initially tried to put the blame on the CBS system (viz. Finacle), later it is reported that the problem was with the Bank itself in under-reporting its NPAs over a period.

The RBI had restricted the Bank from lending more than Rs.10 crore to a single borrower, but the Chairperson had reportedly sanctioned Rs.100 crore to a prominent builder in spite of opposition to the proposal from the Board members. It is reported that her style of functioning and controversial interpersonal relationship with the top management functionaries led to a complaint to RBI and Finance Ministry by the General Managers of the Bank through one of the Directors. Ms. Bhargava's controversial tenure as Executive Director at Canara Bank is well known in the industry.

Based on the complaint, RBI ordered a forensic audit of the loan portfolio by Deloitte India which has revealed many malpractices like:

1. Restructuring of loan accounts which are not viable
2. Accounts which were not eligible for special dispensation were not downgraded.

It was also reported that Ms. Bhargava was eager to declare more NPAs immediately after joining the Bank.

Recently the Ministry of Finance has blamed the RBI for its lack of timely action in spite of having its representative on the Board, forgetting that the Ministry also has its nominee on the Board. In response, RBI has reportedly sent a proposal for withdrawing its representatives from the Banks' Boards for the reason of "conflict of interest and moral hazards" and also blamed the Ministry for not having any "Fit and Proper" criteria for selection of CMDs.

The entire episode at United Bank raises many governance issues afflicting the PSBs.

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Firstly, there is a need for review the functioning of the Board and the role of the Directors. The spurt in NPAs in UBI was not a sudden phenomenon. NPAs were on the increase during every quarter of 2013. The regulator and the owner have their nominees who could have cautioned their masters about the same so that timely action to arrest NPAs could have been possible. When the loan proposal was reportedly opposed by the Directors, how could the CMD sanction it? When the loan has today become an NPA how can the CMD be allowed to retire without any questions asked? There should be a reporting system for the nominee Directors of RBI/Ministry so that the regulator and the owner get the early warning signals which will help to take remedial action in time.

Another issue is transparency in the conduct of the Boards. It is well known to those who had served on the Board of PSBs that the agenda items are so voluminous that hardly any serious discussion can take place. Whatever discussions take place rarely gets recorded. What will appear in the minutes is only a single line approving the proposals even though contrary views might have been expressed by a few Directors. There is a need to bring transparency in the proceedings which could be achieved by video recording of the entire proceedings so that it will come handy in case questions come up at a later date.

Yet another issue is the accountability for the decisions taken. A Branch Manager who sanctions a loan under his delegated power is accountable for the same and has to a pay a price if something goes wrong at a later stage. But there is no accountability at the top management level as all sanctions are through the Committee system. Neither the Committee nor its members are accountable for its actions. This makes the members of the Committee to turn a blind eye to the questionable decisions when, in the interest of the institution, they are required to question. There is a need to lift the veil and make the members of the Committee accountable for the decisions so that instances which had happened in United Bank will be reduced for fear of accountability.

The most important issue is the appointment of CEOs in PSBs. For the past few years CMDs with short tenure of one to three years are posted to different PSBs. It is open secret that every CMD with short tenure shows good performance during his/her tenure and the real picture will emerge only after his/her departure. The norms of eligibility and process of selection of CMD lack transparency. It is often alleged that the eligibility norms are changed to accommodate candidates who are close to the power centres. Even a candidate who has a successful track record and had done well in the selection process (i.e interview) will not know his fate. The rank list of successful candidates is never published and the candidates have to rely on rumour mills. This has also led to a belief that there are strings attached to the post. It is in this context that All India Bank Officers' Confederation (AIBOC) in its 10th Triennial General Body held at Trivandrum recently has once again demanded fixed tenure of a minimum of 5 years for the post of CMDs in PSBs. It has also rightfully demanded transparency in the selection process by publishing the eligibility norms, list of eligible candidates and the rank list of candidates selected to be published on the website of the Ministry of Finance. It is noteworthy that RBI has now suggested the Ministry to have 'fit and proper' criteria for appointments of top executives in PSBs on par with those laid down by RBI for private sector banks. It has also recommended a fixed tenure of five years for CMDs. It is the experience of PSBs that Chairmen with short tenure promise moon, but leave the implementation of the promises to their successors. (In one of the PSBs the CMD, just three months before his retirement prepared a Long Range Plan!). It is also advisable that the whole process of selection is conducted by independent agency with a panel consisting of eminent persons and the rank list of the selected candidates is published.

One more issue connected with CEO appointments is that the CEOs are not governed by any disciplinary mechanism as they are under contractual appointment. This makes the CEOs with short tenure to venture into prohibited areas and get away from their actions as happened in United Bank. Had there been disciplinary standards for CEOs, Ms. Bhargava could not have been relieved within hours of submission of her resignation. It is high time, the RBI/Ministry introduce minimum disciplinary and accountability standards for CEOs.

Another issue closely connected is the post retirement posting of CEOs of PSBs. In order to secure certain important positions in public sector institutions after their retirements, there were instances where CEOs had bent the rules and went scot-free. In order to arrest such tendency, there should be intense scrutiny by CVC and the Ministry before such postings are made by the Government. Further, the whistle blower mechanism in PSBs needs to be strengthened by providing for guaranteed protection to the whistle blower.

Instead of withdrawing its nominees, both the regulator and the owner should initiate steps for making them active and accountable by introducing reporting system which will enable the regulator / owner to intervene in right time. The other directors on the Banks' Boards also should be made to play an active role in the functioning of the Boards.

Let's hope that the RBI/ Ministry would use the United Bank episode to address the governance issues it has thrown up so that Public Sector Banks become more efficient and contribute to nation building more effectively.

ENRICH YOUR KNOWLEDGE:

NBFC - MICRO FINANCE INSTITUTIONS (NBFC-MFIS)

1. Eligibility: An NBFC-MFI is defined as a non-deposit taking NBFC with Minimum Net Owned Funds of Rs.5 crore (for NBFC-MFIs registered in the North Eastern Region of the country, it will be Rs. 2 crore) and having not less than 85% of its net assets as "qualifying assets".

2. Net Assets: are defined as total assets other than cash and bank balances and money market instruments.

3. Qualifying Assets: Loan disbursed without collateral by an NBFC-MFI to a borrower with a household annual income not exceeding Rs. 60,000 (rural) or Rs. 1,20,000 (urban and semi-urban) and total indebtedness not exceeding Rs. 50,000 will be a qualifying asset provided (a) loan amount does not exceed Rs. 35,000 in the first cycle and Rs. 50,000 in subsequent cycles; (b) tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15,000 with prepayment without penalty; (c) aggregate amount of loans, given for income generation, is not less than 70 per cent of the total loans given by the MFIs; (d) loan is repayable on weekly, fortnightly or monthly installments at the choice of the borrower.

4. Limitations on an NBFC which does not Qualify as NBFC-MFI: An NBFC which does not qualify as an NBFC-MFI shall not extend loans to micro finance sector, which in aggregate exceed 10% of its total assets.

5. Loan for personal use/emergencies: Maximum of 30% of the aggregate amount of loans may be extended for other purposes such as housing repairs, education, medical and other emergencies.

6. Existing NBFCs : Existing NBFCs seeking conversion to NBFC-MFI category, were required to maintain Net Owned Funds (NOF) at Rs.3 crore by March 31, 2013 and at Rs 5 crore by March 31, 2014, failing which they must ensure that lending to the Microfinance sector i.e. individuals, SHGs or JLGs which qualify for loans from MFIs, is restricted to 10 per cent of the total assets. For NBFCs operating in North Eastern Region, minimum NOF to be maintained is Rs. 2 Cr.

7. Pricing of the loan/interest: The interest rates charged by an NBFC-MFI to its borrowers will be the lower of the following:

i) Cost of funds, plus margin - Cost of funds means interest cost and margin is a markup of a maximum of 10 per cent for large NBFCs-MFI and 12 per cent for others. Large NBFCs-MFI are those with asset sizes above Rs 100 crore.

ii) The average base rate of the five largest commercial banks by assets multiplied by 2,75. The average of the base rates of the five largest commercial banks shall be advised by the Reserve Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.

The interest charged to customer is calculated on a reducing balance basis. No penalty on delayed payment.

8. Calculation of cost of funds and interest income : The interest cost will be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets.

9. Processing charges: Processing charges by NBFC-MFIs shall not be more than 1 % of gross loan amount. Processing charges need not be included in the margin cap. Further, NBFC-MFIs shall recover only the actual cost of insurance for group, or livestock, life, health for borrower and spouse. Administrative charges where recovered, shall be as per IRDA guidelines.

10. Differential rate of interest: NBFC-MFI can charge a differential rate of interest to its customers but the variance for individual loans between the minimum and maximum interest rate cannot exceed 4 per cent.

11. Charges payable for the loan : There are only three components in the pricing of a loan viz. the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof).

12. Collateral: No security deposit/ margin/collateral is required to be kept by the borrower with the NBFC-MFI.

13. Loan card: The borrower should be given a loan card reflecting: (i) the effective rate of interest; (ii) terms and conditions attached to the loan; (iii) information which adequately identifies the borrower; (iv) acknowledgement by the NBFC-MFI of all repayments including installments received and the final discharge; (v)) All entries in the Loan Card should be in the vernacular language.

14. Prepayment penalty: For loan amounts above Rs.15,000, an NBFC-MFI cannot levy any prepayment penalty.

15. Cap on membership : A borrower can be a member of only one SHG/JLG or borrow as an individual. He can borrow from NBFC-MFIs as a member of a SHG or a member of a JLG or borrow in his individual capacity. Further, a SHG or JLG or individual cannot borrow from more than 2 MFIs.

16. Membership of a Credit Information Company: Every NBFC-MFI has to be a member of at least one Credit Information Company (CIC), provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the conditions regarding membership of SHG / JLG, level of indebtedness and sources of borrowing.

17. Minimum moratorium period : The moratorium shall not be less than the frequency of repayment. For example, in the case of weekly repayment, the moratorium shall not be less than one week.

18. Recovery Methods: NBFC-MFIS shall ensure that a Code of Conduct and systems are in place for recruitment, training and supervision of field staff, incorporating the Guidelines on Fair Practices Code issued for NBFCs. Recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on 2 or more successive occasions

19. Asset classification and provisioning norms: For NBFC-MFIs non-standard asset would mean an asset for which, interest / principal payment has remained overdue for a period of 90 days or more, and for which provisions of 50 percent of the aggregate loan installments which are overdue for more than 90 days and less than 180 days or 100 percent of the aggregate of loan installments which are overdue for a period of over 180 days is to be made.

20. Capital adequacy: Capital adequacy ratio shall not be less than 15% its aggregate risk weighted assets. The total of Tier II Capital at any point of time shall not exceed 100 percent of Tier I Capital. For loans extended on the lines of credit facilities guaranteed by Credit Guarantee Fund Trust for Micro and Small Enterprises, zero risk weights and no provisioning is to be made towards the guaranteed portion.

21. Self Regulatory Organization (SRO) : The industry associations (SROs in this case) are expected to be responsible in ensuring compliance by the Non-Banking Financial Companies that are engaged in microfinance (NBFC-MFIs) with the regulations and code of conduct and in the best interest of the customers of the NBFC-MFIs. Membership to the SRO is not mandatory but they should preferably voluntarily become members of at least one SRO.

Courtesy – Latest Banking & Financial Awareness: May & June, 2014.

EXCERPTS FROM AIRRBOF CIRCULARS

Circular # 33:2014 3rd June 2014

Xth Bipartite Settlement Talks
100 Day Agenda Set By Hon'ble Prime Minister

We reproduce hereunder the text of All India Bank Officers' Confederation Circular No. 41, dated 2nd June, 2014.

"Our members are aware that since approximately last three months Xth Bipartite Settlement talks are at standstill. Though it is mainly on account of election process the country was undergoing, but it is quite natural for the members to get restless on this delay. Soon after taking over of new Government, we have taken up the matter with The IBA requesting them to reinitiate and expedite the process, vide our letter Ref. 2014-32 dt. 30.05.2014. The copies have also been sent to the Hon'ble Finance Minister Mr. Arun Jaitley and The Secretary, DOFS, MOF requesting them to look into the matter and issue appropriate directions. The text of the letter is as follows:

One year and seven months have passed since Officers and Workmen Organizations in the Banking Industry submitted their Charter of Demand for 10th Bipartite Settlement. The slow pace with which the negotiations are taking place cannot be appreciated by any one of us, whatever may be the reason. No meeting has taken place on the issue for the last three months. The situation is alarming and causing lot of anxiety and frustration amongst the officers and workmen in the Banking Industry which is bound to affect their productivity and efficiency. The growing disparity in the pay structure of the staff of Banking industry vis-à-vis the Govt. employees and the apathy shown so far by the earlier Govt., to give a fair deal in the Xth Bipartite Settlement is really agonizing. With the new Government taking over, hopes have been raised as all sectors of the economy have already started looking up. In view of this scenario, the attrition rate in the Banking Industry, which is already starving with the competent and experienced staff, will go further high with opportunities opening out in other sectors.

Hon'ble Prime Minister of India, Sh. Narendra Modi has set out a hundred day agenda for governance. One of the main action points desired in this agenda is improving the delivery by decision making. We request you to kindly take immediate steps and initiatives to initiate the discussions on the Salary Revision, so that we in the Banking Industry also contribute towards the new goal set by our Prime Minister and set an example of good governance.

We are confident that this agenda of ours will be written in the golden letters as contribution of the Banking Industry. We once again assure you to rededicate ourselves in extending our full cooperation in achievement of the agenda of social developments set forth by the Government / Bank Managements.

Hoping for an early response. Any development in this regard shall be circulated to you all".

Circular # 34:2014 — 6th June 2014

OPENING OF RRB BRANCHES
IN MAJOR METROS & STATE CAPITALS

We reproduce hereunder the text of the letter written by the Federation on the captioned subject to the Executive Director, Reserve Bank of India for your information & necessary action.

"We crave leave to bring to your notice that Regional Rural Banks have improved their position in the last fiscal. Quite a number of RRBs are operating in areas adjoining state capitals and Metro Cities. Pallavan Grama Bank, in the state of Tamilnadu, is operating in the adjoining areas of Chennai Metropolis. Likewise Bangia Gramin Bikash Bank is operating in the fringe areas of the city of Kolkata. Even though Master circular on Branch Licensing Policy allows opening of Branches in Metropolitan Cities, however, they are not allowed to open Branches in the Metro Cities. This is required to get access to business and provide services to underprivileged citizens of the cities.

We, therefore, request your goodself to look into the matter and allow Regional Rural Banks to open Branches in the areas coming under Metro Cities.

Your early action is solicited".

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Circular # 35:2014 16th June 2014

DISCUSSIONS WITH IBA ON WAGE REVISION DEMANDS

We reproduce hereunder the text of All India Bank Officers' Confederation Circular No. 42, dated 16th June, 2014.

"After the last round of negotiations held on 14-3-2014, another round of discussions took place with IBA on 13-6-2014 in Mumbai in the background of the new Government taking over at the Centre after the general elections.

UFBU MEETING: Prior to the discussions with the IBA, meeting of the UFBU was held. The meeting observed a minutes' silence to pay homage on the death of Dr Shanti Patel, veteran trade union leader of HMS and Port and Dock Workers. The meeting took stock of the developments since our last meeting held in March, 2014. The meeting welcomed the new Government under the Prime Minister ship of Shri Narendra Modi and hoped that the basic problems of the people and workers would be addressed by the new Government. The meeting noted that in addition to the pending demands of UFBU for wage revision, there are other challenges too like the recommendations of P.J. Nayak Committee, talks of dilution of Government's capital in Banks, merger of Banks, etc. The meeting decided to take a delegation of UFBU to the Finance Minister to apprise him of our issues and demands.

DISCUSSIONS WITH IBA: In the wage revision talks, the IBA was represented by Mr. T M Bhasin, Chairman of the Negotiating Committee along with other members. UFBU was represented by all the Constituent Unions.

Opening up the discussions, Mr. Bhasin explained the present banking scenario where the profits of the Banks have come down as on 31-3-2014 adding to the constraints of the Banks to take up any huge financial burden in the form of wages. After submissions from UFBU, IBA informed that they are willing to improve their offer from earlier 10% to 11% on the cost of Pay Slip components of the wage bill which would amount to Rs.3,465 crores and which would be exclusive of other costs on retirement benefits, LFC, hospitalization expenses, etc. From UFBU we expressed our inability to accept this offer as the same was quite inadequate.

As regards other issues discussed with the IBA in the last two rounds of discussions, IBA informed that they are favourably inclined to consider the demand of extending 100% DA for all pensioners and the same is awaiting the approval of the Government. On our demand for improvement in Family Pension, IBA's response was positive but they informed that the cost implication has to be properly worked out and Government's approval is necessary for the same. As regards updation of pension, IBA was apprehensive about the same since it involves substantial financial burden to the Banks. IBA also informed that our demand for extending appointment on compassionate grounds in the Banks on the lines of Government scheme is under the active and positive consideration of the Government and their decision is awaited.

Since UFBU refused to accept the IBA's offer of 11% increase, IBA wanted to know the expectation of the UFBU for which it was informed that our minimum expectation is 25% increase in the Pay Slip components cost. IBA expressed their total inability to accept the same as it is beyond the paying capacity of the Banks.

With this, the talks ended inconclusively. Thereafter UFBU decided that since IBA has not come up with any adequate increase in their offer, further course of action would be taken shortly after mutual consultations amongst the Constituent Unions and also after meeting the Finance Minister in this regard.

Further developments would be informed to units in due course".

BAKING ROUND UP:

PENAL CHARGES ON NON-MAINTENANCE OF MINIMUM BALANCES IN INOPERATIVE ACCOUNTS

As per extant guidelines, on 'Minimum Balance in Savings Bank Accounts', banks should inform customers regarding he requirement of minimum balance in savings bank account and levy of penal charges for non-maintenance of the same at the time of opening the account in a transparent manner. Further, no charge should be levied for non-operation/activation of Basic Savings Bank Deposit Accounts (BSBDAs). Now, (May 6, 2014), RBI has advised that henceforth banks are not permitted to levy penal charges for non-maintenance of minimum balances in any inoperative account.

BANK ACCOUNTS IN THE NAMES OF MINORS

As per extant guidelines of RBI, banks are allowed to open minors' accounts (fixed, savings deposit and recurring deposit accounts) with mothers as guardians by ensuring that the minors' accounts opened with guardian are not allowed to be overdrawn and that these always remain in credit. To promote the objective of financial inclusion and to bring uniformity among banks in opening and operating minors' accounts, RBI has advised banks (May 6, 2014) as under:

1. A savings /fixed / recurring bank deposit account can be opened by a minor of any age through his/her natural or legally appointed guardian.

2. Minors above the age of 10 years may be allowed to open and operate savings bank accounts independently, if they so desire. Banks may, however, keeping in view their risk management systems, fix limits in terms of age and amount up to which minors may be allowed to operate the deposit accounts independently. Banks can also decide, in their own discretion, as to what minimum documents are required for opening of accounts by minors.

3. On attaining majority, the erstwhile minor should confirm the balance in his/her account and if the account is operated by the natural guardian / legal guardian, fresh operating instructions and specimen signature of erstwhile minor should be obtained and kept on record for all operational purposes.

4. Banks can offer additional banking facilities like internet banking, ATM/ debit card, cheque book facility etc., provided minor accounts are not allowed to be overdrawn and that these always remain in credit.

USAGE OF TRANSACTION TYPE CODE (TTC) IN RTGS

In terms of para 6.4 of RTGS System Regulations 2013, different Transaction Type Code (TTC) Values are prescribed for different types of RTGS transactions. For example, TTC Value "1000" is allotted for customer transactions and TTC Value "1800" is allotted for Own Account Transfer. RBI has observed that some of the RTGS participants are initiating Own Account Transfers (OAT) from RTGS settlement account to their current account maintained with RBI using the customer transaction code, i.e., using the TTC value "1000" allotted for customer transactions instead of "1800" allotted for OAT. The usage of wrong TTC value for transaction in RTGS leads to unintended consequences. RBI has advised all RTGS participants to use appropriate TTC Value while originating RTGS transactions.

SCALING UP OF BUSINESS CORRESPONDENT MODEL

Large number of banking outlets have been opened in the last three years in hitherto unbanked areas of the country through the BC-ICT model. Now monitoring the usage in terms of transactions per BC is required so as to ensure sustainability of the BC model. In this regard, RBI has observed that the insistence by banks on BCs to fully prefund their accounts even after considerably long business relationship has become a major impediment in scaling up operations of BCs. Similarly, low/delayed payment of remuneration of BCs and passing on the responsibility of insuring cash to BCs have also been proving to be irritants in increasing the usage in large number of bank accounts opened. It is, therefore, important for banks to recognize that cash handled by BCs, while doing banking business on behalf of the Bank, is Bank's Cash. In view of the above and with a view to scale up the BC model, RBI has decided that:

1. The Boards of the Banks must review the operations of BCs at least once every six months with a view to ensuring that requirement of prefunding of Corporate BCs and BC Agents should progressively taper down with the passage of time. Ideally in all normal cases the prefunding should progressively come down in such a manner so as to reach around 15% of the limits fixed for each BC/CSP in case of deposits and 30% in case of Bank Guarantees, etc. in say 2 years from the time a BC starts operations.

2. The Board should also review the position of payment of remuneration of BCs and should also lay down a system of monitoring by the top management of the Bank. The issue of allowing BCs to handle deposit and payment transactions of various credits, remittance, overdraft and other products of banks must also be examined by the Board from time to time. Complaints redressal system in this regard should also be laid down by the Board.

3. As the cash handled by BCs is Bank's cash, the responsibility for insuring this cash should rest with the banks.

DIFFERENTIAL RATE OF INTEREST FOR MICRO AND SMALL ENTERPRISES (MSES)

RBI has advised that while pricing their loans to MSE borrowers, banks should take into account the incentives available to them in the form of the credit guarantee cover of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and the zero risk weight for capital adequacy purpose for the portion of the loan guaranteed by the CGTMSE and provide differential interest rate for such MSE borrowers, than the other borrowers. However, banks should note that such differential rate of interest is not below the Base Rate of the bank. Further, banks should undertake a review of their loan policy governing extension of credit facilities to the MSE sector, with a view to using Board approved credit scoring models in their evaluation of the loan proposals of MSE borrowers.

RBI ED SEEKS VOLUNTARY RETIREMENT

Reserve Bank of India (RBI), Executive Director, Shri G Gopalakrishna has voluntarily retired from the service and joined as Director of Centre for Advanced Financial Research and Learning (Cafral). Cafral, a not-for-profit organisation, is an independent body fully funded by RBI.

MOR PANEL'S FINANCIAL INCLUSION REPORT MAY BE PUT ON BACK BURNER

The Union Finance Ministry and the Reserve Bank of India (RBI) have raised questions on viability and implementation of the recommendations made in the Nachiket Mor Committee's Report. The panel had, among other things, suggested a new banking structure to foster financial inclusion. There is unease with the idea of non-banking companies getting the status of banks, without obligations like adhering to the cash reserve ratio and the statutory liquidity ratio. The Mor committee had suggested setting up two types of banks - payment banks and wholesale banks - besides talking about some convergence in regulations for banks and non-banking financial companies (NBFCs). The committee's suggestion that existing commercial banks be allowed to hold payment banks as subsidiaries is also seen as unviable as this might not serve the purpose of financial inclusion, as NBFCs charge very high interest rates and might continue to do so even after being converted into banks.

CAG can audit private companies: The Supreme Court has held that the Comptroller and Auditor General (CAG) could audit the account books of private telecom companies, which share their revenues with the government for using spectrum. The Court said such a scrutiny was crucial for ensuring the government got its "legitimate share" for allowing private telecom operators to use the valuable natural resource. Though the Supreme Court's present order is for the telecom sector, it may have an implication for other industries like power, mining, roadways, ports and airports, in which private companies either share revenues with the government or partner it under the public-private partnership (PPP) model.

INTERBANK MOBILE PAYMENT SERVICE (IMPS)

Interbank Mobile Payment Service (IMPS) is an instant interbank electronic fund transfer service through mobile phones. IMPS facilitate customers to use mobile instruments as a channel for accessing their banks accounts and remitting funds therefrom. Various banks are providing remittance facility through their mobile banking platforms. The interbank remittance request initiated from a mobile is processed by the beneficiary bank as a National Electronic Fund Transfer (NEFT) transaction. The status of such payment request is therefore not known instantly because NEFT payments are processed in batches from 8 am to 7 pm. The NEFT transactions are charged by banks and charges vary from bank to bank. For IMPS, the customers need to have a bank account with the bank which has enabled this facility. Customer should enroll for Mobile Banking Service with the bank where customer has an account. The beneficiary customer should have their mobile numbers registered with the bank where he/she maintain the account and where he intends to receive the credit and should have a valid MMID provided by the bank. No need to specifically enroll for Mobile Banking Service of the bank. The beneficiary details required to affect an IMPS remittance include - (a). Beneficiary's mobile number; (b). MMID of the beneficiary customer.

MMID is Mobile Money Identifier (MMID) which is a seven digit random number issued by the bank upon registration. Remitter (customer who wants to send money) and Beneficiary (customer who wants to receive the money) should have this MMID for doing this interbank funds transfer.

Courtesy – Latest Banking & Financial Awareness: May & June, 2014.

PRESS CORNER:

FINMIN PUTS AMALGAMATION OF REGIONAL RURAL BANKS ON HOLD

RRBs were set up in 1975, to create an alternative channel to the cooperative credit structure and ensure sufficient institutional credit for the rural and agriculture sectors.

The Centre has put on hold further amalgamation of regional rural banks (RRBs), as these face challenges in meeting capital adequacy norms. It is expected the focus will now be on improving their performance and exploring a new class of investors to raise capital for these.

In a communiqué to the heads of public sector banks, the finance ministry said there was a need to tap other sources of capital for RRBs. No fresh proposal of amalgamation of RRBs should be taken up, it added.

Currently, the central and state governments and sponsor banks such as State Bank of India and Punjab National Bank provide capital to RRBs — while the Centre provides 50 per cent, the state government provides 15 per cent and the sponsor bank 35 per cent. While Centre and sponsor banks have been infusing capital, state governments have been found wanting in providing their share.

A Bill to amend the RRB Act is being considered by the parliamentary standing committee on finance. The amendments are aimed at increasing the pool of investors to tap capital for RRBs.

A senior public sector official said now, the focus would be on improving the performance of RRBs, including their profitability. Further amalgamation on this front should happen only after examining the viability of the exercise, the official added.

As of March-end, 2011, the total number of RRBs stood at 82; this fell to 64 in March 2013 and 57 in March 2014. National Bank for Agriculture and Rural Development (NABARD), the regulating body for Rural Banks, has said agricultural credit disbursement by RRBs has been short of the target. The low disbursal of farm credit by RRBs was due to amalgamation and capital adequacy limitations, as these banks had to maintain a capital adequacy ratio of at least nine per cent, it said, adding RRBs didn't have any source of capital other than paid-up capital.

NEED A PUSH?
Performance of Regional Rural Banks

	Mar '13	Mar '14
No of RRBs	64	57
Share capital (₹ cr)	197	197
Share capital deposit (₹ cr)	6,001	6,170
Reserves (₹ cr)	13,247	15,262
Profit-earning RRBs	63	57
Net profit of RRBs (₹ cr)	2,273	2,744
Accumulated losses (₹ cr)	1,091	949
Deposits (₹ cr)	211,488	239,511
Loans and advances (₹ cr)	137,078	218,110
Non-performing loans* (%)	6.08	4.35

*of total loans; Source: Nabard

RRBs were set up in 1975, to create an alternative channel to the cooperative credit structure and ensure sufficient institutional credit for the rural and agriculture sectors.

RRBs have presence throughout the country. P Chidambaram during his first innings as finance minister under United Progressive Alliance (UPA) took steps including recapitalization, and restructuring to improve the functioning and financial health. It was also meant to attain economies of scale and ensure better managerial control.

Source – Business Standard, 10th June 2014.

OPEN 'SMALL ACCOUNTS' SANS REQUIRED DOCUMENTS, RBI TELLS BANKS

Don't have an address or identity proof? You can still open a bank account. In a bid to increase access to banking services, the RBI has advised banks to open 'small accounts' even without asking for the mandatory documents. RBI, Deputy Governor, R. Gandhi said recently that a small account can be opened by merely filling up a form, signing it before a bank officer, and submitting a self-attested photograph certified by the bank officer. At present, over 50 per cent of Indians have no access to formal banking channels.

However, the leeway given to opening of such small accounts comes with some restrictions. "The small accounts will have limitations on credit/debit balances; will be available only at core banking solution-enabled branches; no foreign remittances will be permitted; will be available only for 12 months — further extension on application for officially valid document; the aggregate of all credits in a financial year cannot exceed Rs. 1 lakh; the aggregate of all withdrawals and transfers in a month cannot exceed Rs. 10,000; and the balance at any point in time should not exceed Rs. 50,000," Gandhi said.

Addressing the Federation of Andhra Pradesh Chambers of Commerce and Industry in Hyderabad, Gandhi mentioned the challenges faced by the banking regulator in promoting financial inclusion under the current Know-Your-Customer (KYC) framework. Many of the financially excluded may not have proper official documents, especially address as in the case of migrants, he said.

Source – The Hindu Business Line, 28th May, 2014.

NABARD ARM EXPANDING SERVICE INTO UNBANKED AREAS IN NORTH

NABARD Financial Services (NABFINS), a subsidiary of National Bank for Agriculture and Rural Development, will expand its services in the rural unbanked areas of Odisha, Jharkhand, Madhya Pradesh and Rajasthan.

Set up five years ago, with the intent of providing low-cost rural finance in Karnataka, NABFINS is now present in 66 districts spread mostly across Karnataka and Tamil Nadu.

NABFINS provides finance at about 16 per cent a year to self-help groups. This is much lower than the 22-24 per cent charged, even by the best performing microfinance institutions (MFIs).

Harsh Kumar Bhanwala, Chairman, NABARD, said: "The company has initiated work in Maharashtra and Andhra Pradesh. The average lending rate for an MFI is 22-24 per cent, but NABFINs is lending at about 16 per cent. At affordable rates, it is possible to give financial services at the doorstep of people in rural areas."

The NABARD chief said that the development finance institution lends to NABFINS at 9.6-9.7 per cent. "After accounting for all expenses, NABFINS earns a margin of 2-2.5 per cent," Bhanwala said. NABARD owns 61 per cent stake in NABFINS.

NABARD has requested the Centre to allocate Rs. 200 crore for the promotion and funding of 2,000 producer organisations in rural areas in the next three years. Producer organisations are a group of farmers who come together to jointly grow, harvest and market their produce. This is in addition to the Rs. 1,500 crore it has requested from the Government in terms of equity infusion.

In 2013-14, NABARD's balance sheet size increased by almost a fifth to Rs. 2,13,170 crore. It earned a net profit of Rs. 1,860 crore, about three per cent more than the year before.

Source – The Hindu Business Line, 29th May, 2014.

WAGE HIKE TALKS INCONCLUSIVE

Lakhs of employees of public sector banks, old private sector banks, and some foreign banks, will have to wait longer for *achhe din* (good days), as a wide gap has emerged between what the bank managements are ready to offer in terms of wage hike and the unions' demands.

At the wage negotiation talks held on Friday, trade union representatives sought a 25 per cent hike in wages.

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The bank managements, under the aegis of the Indian Banks' Association, however, were willing to up their offer by only one percentage point (from 10 per cent to 11 per cent) in the pay slip component on a cost-to-company basis.

The 10th industry-wide bipartite wage settlement negotiations in the banking sector have dragged on for more than one-and-a-half years now without making much headway.

So far about nine rounds of negotiations have taken place. While a senior IBA functionary dubbed the trade unions' 25 per cent wage hike demand as ridiculous, the unions feel the bank managements are being plainly stubborn. The talks ended on an inconclusive note on Friday. The ninth five-year bipartite wage settlement, which ran from November 1, 2007, to October 31, 2012, resulted in bank employees getting a 17.5 per cent pay hike.

According to Vishwas Utagi, Vice-President, All India Bank Employees Association, "Bank managements have taken the position that their profitability is under pressure due to provisions they have to make towards bad loans.

"But then employees have given their all to develop banks' business, thereby contributing to economic development. So why should they not get a decent wage hike?"

To speed up the wage negotiation process, Utagi said the United Forum of Bank Unions (the umbrella body of 10 trade unions in the banking sector) will seek Finance Minister Arun Jaitley's intervention. He added that efforts need to be made to find a middle ground and amicably settle the issue without much delay so that bank employees can herald *achhe din* in their lives.

Source – The Hindu Business Line, 17th June, 2014.

CONSTRAINTS FACING PUBLIC SECTOR BANKS MUST BE REMOVED, SAYS PJ NAYAK

Dilution of Government's stake below 51 per cent in public sector banks (PSBs) does not amount to privatisation, says PJ Nayak, Chairman of RBI committee to review governance of boards of banks in India.

In an interaction with *Business Line*, Nayak said, "There is a fundamental and deep irony that the Government has disadvantaged the very banks it has invested in. Why would the Government want to do it?

"All we are saying is, please remove these disadvantages being faced by PSBs. Government stake coming below 51 per cent is not privatisation. So, the view taken by some that the committee has actually recommended privatisation is incorrect. It is not part of the mandate of the committee."

Nayak pointed out that the asset quality is a little stressed in public sector banks.

"Much more capital would need to be raised and the Government needs to contribute its share which would challenge fiscal consolidation.

"This is another reason why the Government might find it convenient to lower its stake in PSBs to less than 50 per cent, he said.

Nayak said that the committee had looked at many of the constraints that PSBs face.

It had argued that that many of these difficulties have arisen due to the Bank Nationalisation Act — which is basically an Act to take over banks. And though not meant to structure the governance of banks, it has provisions for structuring, he added.

Therefore, the committee suggested bringing the governance of these banks under the company law.

From 2013 onwards, a new Companies Act, which is well designed with both responsibilities and obligations thrust on the board of directors, has been operational and private sector banks are operating under it.

Nayak said that it was not possible to have two banking systems (public sector and private) where one is underprivileged and the other, privileged.

We have suggested that there be a one-licence regime where all banks, irrespective of their ownership (public or private), operate under the company law, said Nayak.

He pointed out many areas where the playing field is not level. For instance, public sector banks cannot pay the same compensation as private banks.

PSBs have external vigilance enforcement (which the private banks do not have) through the Central Vigilance Commission (CVC) and the Central Bureau of Investigation (CBI).

PSBs are also subject to the Right to Information (RTI) Act in a limited way (private sector banks are not).

Nayak said that a level-playing field can be created if Government shareholding in these banks falls to below 50 per cent. Even if it falls to 49 per cent, the RTI Act, the CBI, and the CVC will not apply, and the Government will no longer be bound by compensation constraints, he said.

Even with 49 per cent shareholding, the Government can do what it can with, say, 55 per cent stake, he added.

"It is the single most dominant shareholder. There will be no difficulty in the Government being able to get its way in whatever it wants in general body meetings and shareholder meetings. It makes no difference."

Reducing the shareholding helps trim some of the constraints that PSBs face.

And, in the process, the Government creates better prospects for itself, because, if the banks perform better and become more competitive (as there is a level-playing field), the Government gets higher returns which, in turn, will benefit taxpayers, said Nayak.

Source – The Hindu Business Line, 2nd June, 2014.

BANDHAN'S BANKING INCARNATION WILL NOT SHY AWAY FROM THE POOR: CMD

Bandhan Financial Services, a microfinance institution which is mapping out its entry into the banking domain, will focus on "un-banked" territories even after it becomes a bank.

Chandra Shekhar Ghosh, Chairman and Managing Director of Bandhan, said the institution's already existing operational geography in rural areas could provide opportunity for deposit mobilisation too. He said small and tiny businesses, which Bandhan has served so far, are in the process of graduating to bigger firms, fit for a banker's portfolio.

"We have captive deposit areas too. For scaling up, of course, we would tap the rich, the urban middle-class and youth who are just on the threshold of becoming bankable," he said at an interaction organised by the MCC Chamber of Commerce and Industry here.

However, for lending, Ghosh said Bandhan's banking incarnation will not shy away from the poor. He said much of Bandhan's established credit delivery model, spread of network in rural hinterland, particularly in the east and the north-east, relationship-based financing, and recovery system would be extended to the proposed bank.

Cash-flow based lending and biometrics-enabled KYC (know your customer) could be a differentiator of Bandhan's banking model for advances, he indicated. "We intend to continue to bring banking services to the doorsteps of savers as well as depositors," Ghosh observed. "We would keep the cost to the minimum. We would prefer "human teller machines" rather than ATMs. Monish Shah, Senior Director of Deloitte Touche Tohmatsu, said the bank would be positioned in niche areas. Deloitte is helping Bandhan transform into a bank.

He said a new market opportunity was emerging for the smaller players in the banking space. Small-size banks will gravitate to niche markets left out by the big players. The largely unserved MSME (micro, small and medium enterprises) sector will also be among Bandhan's priorities.

Bandhan, after turning into a bank, has plans to float an IPO (initial public offering) within three years.

Now it has an 18-month timeframe to set in place the required infrastructure.

Source – The Hindu Business Line, 5th June, 2014.

PM'S CALL TO IMPROVE WORK CULTURE EXTENDS TO BANKING SECTOR

Prime Minister Narendra Modi's fiat to Central ministries and departments to ensure "improved work culture and work environment" has been extended to all financial sector regulators, chiefs of public sector banks, financial institutions and public sector insurance companies.

In a communication issued on Monday to the above-mentioned entities, the Finance Ministry said they are required to initiate immediate action to improve work culture and work environment in all their offices, branches, premises or "any other spaces" in their organisation.

However, the ministry has given the regulators and financial intermediaries only five days to submit their 'action taken report' (by June 13), so that the Cabinet Secretary can be apprised of the action taken.

As part of this exercise, the ministry wants the workspace cleared and spruced up and filed/papers neatly stacked so that a positive work environment is created.

The financial sector regulators and financial intermediaries are required to identify forms that are in vogue and shorten them to one page.

They should also encourage online submission of information and eventually universalise it. For quick turnaround in decisions, the ministry said decision-making layers should be whittled down to a maximum of four.

Calling for collaborative decision-making and frequent consultations between various verticals in an organisation, the ministry underscored that the entire organisation should work as a team, with every level being encouraged to provide inputs and value-addition.

The regulators as well as the financial intermediaries have been asked to ensure effective and timely resolution of public grievances.

In the case of financial sector regulators, the ministry wants them to identify at least 10 rules or processes and even archaic laws, which are redundant and not lead to any loss of efficiency, so that they can be repealed.

There are five financial sector regulators — Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Pension Fund Regulatory and Development Authority, and Forward Markets Commission — in the country.

Source – The Hindu Business Line, 10th June, 2014.

INDIA IS POOREST IN SOUTH ASIA AFTER AFGHANISTAN: OXFORD VARSITY STUDY

India is home to over 340 million destitute people and is the second poorest country in South Asia after strife-torn Afghanistan, says a poverty estimation study by Oxford University, UK.

Forty per cent of all poor in 49 countries live in India, mostly in rural areas, according to the Multi-Dimensional Poverty Index (MPI) 2014, a tool used by Oxford researchers to measure poverty.

The researchers classified one-half of all the poor in 49 countries as destitute by using MPI 2014, which identified a person as 'multi-dimensionally poor' if he or she is deprived in one-third or more of 10 indicators, such as severe malnutrition, losing two children, and defecating in open.

In South Asia, Afghanistan had the highest level of destitution at 38 per cent, followed by India at a 'troubling' 28.5 per cent. Interestingly, India's immediate neighbours Bangladesh and Pakistan had much lower levels of destitution at 17.2 per cent and 20.7 per cent respectively.

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The study placed Afghanistan as the poorest country in South Asia, with 66 per cent (based on 2010-11 data) of its people being MPI poor, followed by India with 54 per cent (2005-06), Bangladesh (2011) with 51 per cent, Pakistan (2012-13) and Nepal (2011) at 44 per cent, Bhutan at 27 per cent, and Sri Lanka and the Maldives at 5 per cent.

The researchers also named Bihar as the poorest region among 49 countries, followed by South Afghanistan. It said the poorest eight large Indian States were home to more MPI poor than the 28 poorest African countries, while admitting that India's data were from 2005-06 and needed an update, whereas those for the 25 African countries were more recent. In a positive, the study recognised that India reduced multi-dimensional poverty faster than income poverty.

The Oxford analysis of multi-dimensional poverty reduction in India was done using National Family Health Survey datasets from 2005. The MPI was created by Oxford Poverty and Human Development Initiative Director Sabina Alkire and Research Associate Maria Emma Santos, now at Universidad Nacional del Sur and CONICET, Argentina. In 2014, the MPI has been widely updated and expanded, including substantial new analyses of rural-urban poverty, inequality among the poor, destitution and changes to poverty over time, an Oxford release said.

Source – The Hindu Business Line, 17th June, 2014.

ग्रामीण बैंककर्मियों ने उठाई पेंशन और भत्ते की मांग

स, नई दिल्ली : ऑल इंडिया आरआरबी ऑफिसर्स फेडरेशन ने मांग की है कि उन्हें अन्य बैंककर्मियों के जैसी सुविधाएं दी जाएं और पेंशन, भत्तों को समान स्तर पर लाया जाए। फेडरेशन के अध्यक्ष भानु प्रताप सिंह ने इस संबंध में केंद्रीय गृह मंत्री राजनाथ सिंह को ज्ञापन भी दिया है। उन्होंने कहा कि ग्रामीण बैंकों के कर्मचारी ऐसे क्षेत्रों में काम करते हैं जहां उन्हें ज्यादा सुविधाओं की जरूरत है लेकिन उन्हें बाकी बैंकों के जैसी सुविधाएं भी नहीं दी जातीं। कर्नाटक हाई कोर्ट और राजस्थान हाई कोर्ट ने फैसला दिया था कि ग्रामीण बैंकों के कर्मचारियों को समान पेंशन दी जाए। यूपीए सरकार में तत्कालीन वित्त मंत्री प्रणव मुखर्जी भी इससे सहमत थे लेकिन यह फैसला लागू नहीं किया गया।

इस समय हालत यह है कि किसी भी वर्ग के अधिकारी और कर्मचारी का पीएफ केवल 780 रुपये ही कटता है और रिटायर होने के बाद सिर्फ 1250 रुपये मासिक पेंशन दी जाती है। समान पेंशन के लिए सुप्रीम कोर्ट में भी मामला पेंडिंग है।

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