AIRRBOF News Letter
May, 2014
Sky is not the limit, we cover it...
The Voice of All India RRB Officers' Federation
Vol - XXI SILIGURI No. 05

EDITORIAL

WHITHER AMALGAMATION OF RRBs

The decision of Govt. of India, Dept. of Financial Services with then Secretary, Shri D.K. Mittal, at the helm, to thrust upon abrupt amalgamation of RRBs even sponsored by other Bank was all along an outrageous proposition. Shri Mittal decided the matter of amalgamation in a huff. He thrusted the proposals down the throat of Sponsor Banks at virtually gunpoint. Sponsor Banks like Syndicate Bank refused to tender their consent. However, such Sponsor Banks had to swallow the bitter pill as CMDs and EDs of all Banks are controlled by DFS. Some State Govt.s, who is the stake holders of RRBs, refused to toe the line of DFS. However, Shri Mittal bulldozed the objections and unrolled the lethal amalgamation process. The process entail RRBs amalgamated with RRBs sponsored by other Banks having no proximity geographically, with cultural and ethnic differences. Some State Govt. did a double take by revising their earlier consent. Classic example is Govt. of Punjab. Some States pay scant respect to the proposal of DFS and remained conspicuous by their silence.

RRBs were conceived as a Commercial Bank with local feel oriented to cater to the customers in a decentralized environment. The basic purpose of amalgamation of RRBs is stated to increase the branch net work, the sheer size of balance sheet compromising with the basic tenets of the foundation of RRBs. With the sick mind set to attain profitability, the concept of Regional Rural Banks as envisaged by the M. Narashimam Committee which championed the cause of formation of RRBs, was dumped. The amalgamated RRBs are neither Commercial Banks nor Regional Banks. The Banks have become top heavy bottom weak institutions trying to survive at any cost. Highhanded decision of Shri D.K. Mittal had provided a fatal blow to the RRB system. The amalgamation of RRBs followed no pattern, standard or raison d'être.

The customers of RRBs had to pay heavy price for the 'Tughlugi' process of amalgamation. Suddenly the rules, regulations, rate of charges, deposit and loan schemes got changed without any option given to the clientele. Being captive customers, having no access to any other Bank branches in the vicinity, customers have virtually been left in the lurch. If RRBs need to emulate Commercial Banks then solution lies elsewhere. RRBs do not have separate space in the changed prespective. They have virtually become poor imitation of Sponsor Banks. RRBs need not be continued as separate Banks. RRBs need only to be amalgamated with their respective Sponsor Banks. This would provide lasting solution to the need of the rural people.

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ENRICH YOUR KNOWLEDGE

FINANCIAL SERVICES FOR SMALL BUSINESS & LOW INCOME HOUSEHOLDS

SUMMARY OF NACHIKET MORE COMMITTEE REPORT

Background: On both Financial Inclusion (defined as the spread of financial institutions and financial services across the country) and Financial Depth (defined as the percentage of credit to GDP at various levels of the economy) the overall situation in India remains very poor and, on a regional and sectoral basis, very uneven. An estimate suggests that close to 90 per cent of small businesses have no links with formal financial institutions and 60 per cent of the rural and urban population do not even have a functional bank account. And, while the bank credit to GDP ratio in the country as a whole is a modest 70 per cent, in a large state such as Bihar, it is even lower at a mere 16 per cent.

Committee: The Reserve Bank of India had, in September 2013, set up a Committee on Comprehensive Financial Services for Small Business and Low Income Households, under the Chairmanship of Dr. Nachiket Mor. Summary of the observations of the Committee are given below:

Design Principles: Basically, there are two broad designs of banks namely Horizontally Differentiated Banking System (HDBS) and the Vertically Differentiated Banking System (VDBS). Across these, ten existing and potential banking designs were identified. These are: National Bank with Branches, National Bank with Agents, Regional Bank, National Consumer Bank, National Wholesale Bank, National Infrastructure Bank, Payments Network Operator, Payments Bank, Wholesale Consumer Bank, and Wholesale Investment Bank. The entire approach would need to markedly change from one in which all the players become clones of each other because they are all required to adhere to one centrally designed blue-print, to one that would permit each one to focus on its own differentiated capabilities and accomplish the national goals of financial inclusion by partnering with others that bring complementary capabilities to bear on the problem.

Universal Electronic Bank Account (UEBA): Every resident should be issued a Universal Electronic Bank Account (UEBA) automatically at the time of receiving their Aadhaar number by a high quality, national, full-service bank. An instruction to open the bank account should be initiated by UIDAI upon the issuance of an Aadhaar number to an individual over the age of 18. The bank would need to be designated by the customer from amongst the list of banks that have indicated to UIDAI that they would be willing to open such an account which would attract no account opening fee but that the bank would be free to charge for all transactions, including balance enquiry. No bank to refuse to open an account for a customer who has adequate KYC which specifically includes Aadhaar.

Proof of Identity and address: RBI should require a strong Proof of Identity (POI) for each and every customer and a documentary proof of one national address but waive the requirement of documentary proof for the current address, for the purpose of opening a full-service bank account. Bank should carry out tracking of usage and transactions patterns to ascertain the risk levels of the customer.

Aadhar Card: Aadhaar card to be the key piece for identification and authentication of a customer so that repudiation and fraud risks are minimized. However, till full enrolment under Aadhar, intermediate authentication methods such as PIN numbers and OTP could be used.

Restore the permission of ND-NBFCs to act as BCs of a bank: There should be technology-based solutions such that all settlements happen on an intra-day basis. In addition, eliminate the distance criteria between the BC and the nearest branch of the sponsor bank. Allow Banks to decide operational criteria.

Direct Benefit Transfer Fees: The Taskforce on Aadhaar Enabled Unified Payment Infrastructure recommended that State Governments pay a fee of 3.14 per cent (subject to a cap of Rs. 15.71 per transaction) for Direct Benefit Transfer (DBT) payments originating from governments. RBI should enjoin upon State Governments to implement the same.

Payment Banks: Under the Banking Regulation Act, a set of banks may be licensed which may be referred to as Payments Banks with the following characteristics: (i) Their primary role is to provide payment services and deposit products to small businesses and low-income households. They will be restricted to holding a maximum balance of Rs. 50,000 per customer; (ii) They will be required to meet the CRR requirements applicable to all the Scheduled Commercial Banks; (iii) They will be required to deposit the balance proceeds in approved SLR securities with a duration of no more than three months and will not be permitted to assume any kind of credit risks; (iv) The minimum entry capital requirement for them will be Rs. 50 crore compared to the Rs. 500 crore required for full-service SCBs. Existing SCBs should be permitted to create a Payments Bank as a subsidiary.

Sector concentration: Banks must be required to disclose their concentration levels to each segment in their financial statements.

Reporting to Credit Bureaus: Universal reporting to credit bureaus should be mandated for all loans, both individual and SME, but in particular SHG loans, Kisan Credit Card, and General Credit Card.

Differential Provisioning Norms: Regulator should provide specific guidance on differential provisioning norms at the level of each asset class. A bank's overall NPA Coverage Ratio would be a function of its overall portfolio asset mix. On standard assets, provisioning levels as well as asset classification guidelines specified by RBI would need to reflect the underlying level of riskiness of each asset class (combination of customer segment, product design, and collateral) and not be uniform across all the asset classes.

Pricing of loans: Banks may be allowed to freely price farm loans based on their risk models and any subventions and waivers deemed necessary by the government should be transferred directly to the farmers and not through interest subsidies or loan waivers. The permission to price farm loans below the base rate should be withdrawn.

Subsidiaries for financial inclusion: The requirement of prior approvals may be removed for the purpose of creating dedicated subsidiaries for financial inclusion.

Micro Finance Institutions: The stipulation that the all-inclusive interest charged to the ultimate borrower by the originating entity should not exceed the Base Rate of the purchasing bank plus 8 per cent per annum should be removed.

Regional Banks: In a manner similar to National Banks, for Regional Banks as well, refinance by NABARD or credit guarantee support by CGTMSE should be designed as risk-based guarantees and not available automatically.

State Finance Regulatory Commission (SFRC): could be created into which all the existing State Government-level regulators could be merged and functions like the regulation of NGO-MFIs and local Money Services Business could be added on.

Wholesale Banks: Under the Banking Regulation Act, a set of banks may be licensed which may be referred to as Wholesale Banks with the following characteristics: (i) Given that their primary role is lending and not the provision of retail deposit services, they will only be permitted to accept deposits larger than Rs. 5 crore; (ii) Since they could expect to borrow large amounts from other banks, net liabilities from the banking system will be permitted to be deducted from their NDTL computation for the purposes of ascertaining their SLR obligations on par with the treatment currently given for CRR; (iii) Since other banks are expected to lend large amounts to Wholesale Banks, those other banks will be permitted to deduct their net assets to the banking system from the computation of their ANBC (the amounts on which PSL requirements are to be applied); (iv) In view of the fact that they will not take retail deposits, the minimum entry capital requirement for them will be Rs. 50 crore compared to the Rs. 500 crore required for full-service SCBs; (v) If the institution has fewer than twenty branches through which it operates, it will not be required to meet the 25 per cent branching requirement. Institutions with twenty or fewer branches could be referred to as Wholesale Investment Banks while those with a larger branch network could be referred to as Wholesale Consumer Banks; (vi) Wholesale Consumer Banks should be permitted to act as BCs for other full service Banks.

Priority Sector Lending

PS target: In order to enable greater regional and sectoral specialisation among Banks, RBI should revise the PSL targets and require banks to meet an Adjusted PSL target of 50 per cent against the current requirement of 40 per cent. Districts and sectors are weighted based on the difficulty in lending to them, and a Bank lending to a difficult sector in a difficult to reach district can benefit from a multiplier value based on the specific sector and district. Every sector-district combination has a weight associated with it and the Bank will have to reach an adjusted PSL value of 50% taking these weightages into account. Two parameters namely district level credit depth, and sector and sub-sector level credit depth be used to determine the sector, sub-sector, and regional weights which are published every three years.

Direct agriculture: All loans given to landless labourers and small and marginal farmers should be counted as a part of Direct Agriculture and not merely the wages component of a loan given to a farmer for financing her agricultural production.

Investment by banks in the form of non-fund based limits (such as guarantees): should qualify for PSL to the extent of the credit equivalent amount of the off-balance sheet facility where loans to these categories qualify for PSL. ANBC should also be adjusted to include such PSL-linked, non-fund based limits.

Basis for targets: PSL targets should be applicable on the last reporting Friday during the last month of each quarter in exactly the same manner as it is currently applicable in the month of March, so as to ensure more timely and continuous credit flow into priority sectors.

Relief to farmers: If the government does desire to provide relief in any form to the small farmer, it would be best carried out as a direct benefit transfer (DBT) to the bank account of the farmer and not through the mechanism of either interest subvention or debt waiver.

Food Credit: For the provision of food-credit, Food Corporation of India (FCI) and State Governments should be required to originate warehouse receipts and raise low-cost funds in the market against these receipts instead of being reliant only on bank credit.

Land Records: Banks and Financial Institutions should be required to verify the land records of their clients at the time of making loans and in those states where this is possible, to insist that transfers take place before a loan can be renewed for a second time.

Customer protection: The RBI should issue regulations on Suitability of Product, applicable specifically for individuals and small businesses, to all regulated entities within its purview, i.e., banks, NBFCs and payment institutions so that the violation of such regulations would result in penal action for the institution. These regulations should be applicable specifically for individuals and small businesses defined under the term "retail customer" by FSLRC. FSLRC defines a retail customer as "an individual or an eligible enterprise, if the value of the financial product or service does not exceed the limit specified by the regulator in relation to that product or service."

Suitability of Product: All financial firms regulated by the RBI would be required to have an internal process to assess Suitability of products prior to advising clients with regard to them. In the event a customer chooses to purchase a product considered unsuitable to the customer, the financial services provider should consider providing written advice to the customer and seeking acknowledgement from the customer. This should however, not be misused by the financial services provider.

Compensation package to staff: The firm's internal rules relating to compensation packages of staff should not create incentives or otherwise promote inappropriate behaviour. The compensation packages and incentive structures should not be based solely on numerical targets but should include qualitative aspects such as offering appropriate products and services to customers. In addition, specific products may be deemed as "globally unsuitable" and would not be eligible to be offered to households or businesses below a certain income threshold or net worth or individuals above a certain age.

Financial Redress Agency (FRA): A unified Financial Redress Agency (FRA) be created by the Ministry of Finance for customer grievance redress across all financial products and services which will in turn coordinate with the respective regulator. The FRA should have a presence in every district in the country and customers should be able to register complaints over the phone, using text messages, internet, and with the financial services provider directly, who should then be required to forward the complaint to the redressal agency. The customers should have their complaints resolved within 30 days of registration of the complaint with the FRA. The RBI should create a system using which any customer can effortlessly check whether a financial firm is registered with or regulated by RBI.

Non Banking Financial Companies: There should be two types of Non-Banking Finance Companies (NBFCs) - one core investment company and second all other NBFCs. There should be regulatory convergence between banks and NBFCs based on the principle of neutrality with regard to classification of non-performing assets and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 eligibility.

EXCERPTS FROM AIRRBOF CIRCULARS

Circular # 26:2014 — 4th April 2014

WE OPPOSE "IN-PRINCIPLE" BANK LICENCES ISSUED BY RBI

We reproduce hereunder the text of All India Bank Officers' Confederation Circular No. 32, dated 3rd April, 2014.

QUOTE

Our members might have come to know from media that The Reserve Bank of India has granted "In-principle" bank licences to "Infrastructure Development Finance Company" and microfinance lender "Bandhan Financial Services Ltd.", ignoring the opposition not only from Bank officers and employees and many others but also in utter disregard to the advice of of the standing committee on Finance headed by Sh. Yashwant Sinha. The action of the RBI has come on the very next day of Election Commission giving a go-ahead to the RBI.

Soon after coming to know of the decision of the RBI, we have sent our protest vide letter ref. 2014/RBI/19 dated 02/04/2014, text of which is appended below. We shall chalk out our future course of action in consultation with other constituents of U.F.B.U.

TEXT OF OUR LETTER TO THE GOVERNOR RBI

Ref: 2014/RBI/19 Dated:02/04/2014

Sh. Raghuram Rajan,
Governor, Reserve Bank of India,
Mumbai

Sir,

We are extremely dismayed over the news of your according in principle approval to M/s. IDFC and Bandhan Financial Services for opening new banks. The undue haste displayed in this regard leads everyone to suspect the motive behind the action. We stoutly oppose the move and register our strongest protest against this hasty and ill-conceived move fraught with grave danger for the Indian economy in general and banking sector in particular.

We had time and again pleaded with you to desist from this disastrous and anti-people measure for various reasons, including in view of the large-scale misuse of public funds by private banks run by corporate houses before their nationalization, and the scope for further concentration of wealth in the hands of a few corporate houses in the country as well as misuse of public savings for private purposes. In recent times the Public Sector banks had to bail out many private banks rendered sick by the profligacy and incompetence of their managements. How Global Trust Bank, which was launched with much fanfare, collapsed under corporate greed is a recent history and for reasons best known to them. It is really sad that those concerned have refused to draw proper lessons.

The standing committee on Finance headed by Mr.Yashwant Sinha had categorically expressed itself against the policy formulated to issue banking license to industrial houses. The committee observed that banking being highly leveraged business, involving public money and public welfare, it would be more in the fitness of things to keep industry and banking separate. The committee was also apprehensive that industrial/business houses may not be geared to achieve the national objectives of financial inclusion and priority sector lending. The panel also dubbed the criteria formulated as 'ambiguous'. In view of such clear-cut contrary view points from the standing committee, it would have been prudent on your part to keep the decision in abeyance at least till a new government assumes office after election.

We once again lodge our strongest protest and request you to hold in abeyance further follow-up actions. We also once again reiterate our demand that the move to grant license to new private banks be dropped altogether to safe guard the long term interest of our country".

Circular # 27:2014 14th April 2014

SETTLEMENT OF PENSION ISSUE IN 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, Ministry of Finance for your information & necessary action.

QUOTE
At the outset, on behalf of over 38000 officers working in RRBs, we convey our best wishes to you for assuring the coveted position of Secretary, Dept. of Financial Services. We pledge to extend full support and co-operation to make your stint purposeful. Sir, the major issue for quite scale demotivation and lack of enthusiasm amongst officers and employees of RRBs is denial of pensionary benefit as available to their counterparts in Public Sector Banks. Despite of clear indications of National Industrial Tribunal and the Hon'ble Supreme Court the Pensionary Benefits were not extended to RRBs. Two High Courts, namely, Rajasthan and Karnataka rendered order to extend Pensionary Benefit to RRBs as admissible to their counterparts in Public Sector Banks. Even though then Finance Minister, Shri Pranab Mukherjee approved extension of Pension Benefits to RRBs, albeit, on certain conditions, Dept. of Financial Services filed SLP (C) before Hon'ble Supreme Court and the matter is pending with the Apex Court.

In the meantime our affiliate in Pandyan Grama Bank met Shri P. Chidambaram, Hon'ble Finance Minister in February, 2014 and appealed to him to hasten the process of granting Pension to officers and employees of RRBs at par. The Hon'ble Finance Minister appreciated our concern and agreed to resolve the matter. Shri Chidambaram replied to our affiliate in a letter explaining the detailed position and assured to take positive view to expedite the matter. We beg to enclose the letter of the Hon'ble Finance Minister for your record.

We shall urge upon to take suitable action to expedite the process of granting Pension Parity to officers and employees of RRBs in line with the positive attitude of the Hon'ble Finance Minister.

UNQUOTE

Circular # 28:2014 14th April 2014

REGIONAL RURAL BANKS – RELEASE OF OTHER ALLOWANCES & BENEFITS IN LINE WITH THOSE EXISTING IN SPONSOR 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, Ministry of Finance for your information & necessary action.

QUOTE
We crave leave to bring to your kind notice that the Hon'ble Supreme Court by an order in the year 2001-2002 directed that officers & employees working in Regional Rural Banks are entitled to parity in the matter of salary, allowances & other benefits. Subsequent to the order, then Banking Division issued instruction to all RRBs granting salary, portion of allowances & benefits to officers & employees of RRBs. However, Banking Division empowered Sponsor Banks to consider release of other allowances & benefits. In the process most of the Sponsor Banks released only a portion of other allowances & benefits while withholding major portion of allowances & benefits.

It is pertinent to note that entitlement to other allowances & benefits varies from one RRB to another thereby causing serious disparity amongst the workforce of different RRBs. This situation is highly demotivating to the officers & employees. One of major reasons of high attrition of newly recruited officers & employees of RRBs is non-availability of other allowances & benefits.

Sir, we request your kind intervention in the matter. We urge upon to look into the matter and pass suitable order to grant other allowances & benefits to officers & employees of RRBs in line with those obtaining in Sponsor Banks.

UNQUOTE

Circular # 29:2014 14th April 2014

REGIONAL RURAL BANKS – PLACEMENT OF GOVT./PUBLIC SECTOR INSTITUTIONS DEPOSIT

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, Ministry of Finance for your information & necessary action.

QUOTE
We crave leave to bring to your notice that Regional Rural Banks are largest purveyors of Rural Credit and Agricultural Credit in our country. The participation of RRBs in Priority Sector advance is the highest. RRBs always take active role in participating in all types of Govt. directed steps like distribution of agricultural Pension, NREGS, Pension to different disadvantaged section of the society and student stipend etc.

The Manpower of the branches of RRBs gets involved in such activities. However, such activities hardly generate any revenue. Like all other Commercial Banks RRBs are also expected to earn profit. With such thin margin and heavy pressure on profitability due to huge provisioning of Govt. directed loans, these Banks find themselves in dire condition. The deposit of RRBs come mainly from household savings as Govt./Public Sector Funds are seldom kept with RRBs. Had the RRBs get access to institutional deposit their resources base could be strengthened and bottom line improved. RRBs having no office/representative in State Capital/Major Cities the connect of RRBs with Head Quarter of Govt. Dept. as well as Corporate Centre is very weak. They do not have access to mobilisation of funds.

We urge upon you to sincerely advise and implement instruction that major position of Govt. funds/ Public Sector deposits are kept with RRBs as a matter of routine.

Sir, we trust that your order and its implementation in regard to parking of funds with RRBs by Central/State Govt. and Public Sector institutions shall go a long way in strengthening RRBs and eventually give a boost to rural economy.

UNQUOTE

PRESS CORNER:

A CASE FOR UNIVERSAL PENSION

The Pension Fund Regulatory and Development Authority Bill, 2011, was finally passed by the Parliament, after a delay of nearly a decade. The Bill, an important landmark in the pension history of India, would provide pensioners with a choice of schemes as well as permit foreign direct investment in pension funds. In a welfare state, old age social security remains pivotal, and one of its major components is pension.

Post independence, pension schemes were consolidated and expanded to provide retirement benefits to the entire public sector working population. Further, several provident funds were also set up to extend coverage among the private sector workers and the general public.

Pension reforms in India in the past decade have seen three major initiatives — a paradigmatic shift in the civil servants' pension scheme in 2004, the introduction of National Pension Scheme (NPS) for all citizens, and the initiation of NPS-Lite for the economically disadvantaged sections with smaller savings. But all these schemes are contributory, and given the prevailing economic situation and lack of financial awareness, the coverage is low, estimated at less than 120 million persons.

To increase pension penetration, the government could consider Universal Pension (UPS) — a benefit which is received by citizen once they reach the stipulated age.

In its simplest form, the character of this type of pension is flat benefits with no means (e.g. income or asset, participation in the labour force, retirement from paid employment) test. Universal pensions are the easiest to administer, and have very low administrative costs in comparison to the other schemes.

A number of countries such as the Netherlands and Norway provide a universal basic pension that is tax-financed. South Africa, Australia, Brazil, Lesotho and Chile have pension schemes which exclude only a few.

Mauritius, Namibia, Botswana, Bolivia, Nepal, Samoa, Brunei, Kosovo and Mexico City provide a basic universal pension to the elderly, simply based on citizenship, residence and age.

If India was to consider a similar proposal, what would be the fiscal implication? An attempt has been made to estimate the fiscal cost of implementing a universal pension scheme in India where all Indians of the qualifying age and above will receive pension.

The estimates are based on the following assumptions: GDP records a real growth rate of 4, 5, and 6 per cent, since the annual average growth rate from 1950-51 to 2012-13 is 4.9 per cent; b) qualifying age is taken to be 60 years; c) future population of India has been calculated from the data set maintained by the United Nations; and d) pension estimates are made for 2015, 2025 and 2050 e) pension amount per month is assumed to be Rs. 500, Rs. 1,000 and Rs. 1,500.

The implementation of the UPS would entail a nominal additional expenditure of 1 per cent of GDP in 2015 if the economy grows at 5 per cent per annum, assuming that the pension amount is Rs. 500 per month.

In contrast, the existing pension liability of civil servants was about 2.6 per cent of GDP in 2012-13, of which pension bill of the Central Government constituted about 0.9 per cent of GDP and that of the State governments about 1.7 per cent of GDP.

Funding remains a major problem in the case of universal pension as the pension expenditure is already high. Nevertheless, since the welfare aspects involve the entire population, an additional burden can easily be comprehended.

On the other hand, like Mauritius and New Zealand, a part of pension can be recovered from pensioners who continue to work or have investment income (rich pensioners) simply by making the non-contributory pension taxable.

India has had an elaborate pension system for more than a century but nearly 80 per cent of the working population is not entitled to any pension. The elderly are not only productive but also serve as an anchor for many dependent children. By design UPS provides social protection which remains unattainable through contributory pensions.

An introduction of this scheme will therefore enhance the welfare of the working cohorts of India's majority.

SOURCE: THE HINDU BUSINESS LINE, FEBRUARY 20, 2014

BANKS GUNG-HO ABOUT FINANCIAL INCLUSION, BUT NOT AGENTS

Financial inclusion is not yet a profitable proposition, but banks remain gung-ho about the initiative, predicting future dividends from the market reach that comes with improved access to finance. Public sector banks entrusted with the task.

The banks earn revenue of Rs. 2.26 for every Rs. 100 of cash distributed under the Government's welfare schemes, according to the existing compensation mechanism.

But their costs are as high as Rs. 3.19 per Rs. 100; translating into a negative gross margin of as high as 41.2 per cent, say estimates by MicroSave.

The firm studied a mix of private and public sector banks, and small banks (including RRBs), says Puneet Chopra, Associate Director for Microsave, which has been providing financial inclusion consulting for 15 years.

Given this cost structure, the more money the banks disburse, the bigger the losses. Yet, rather than going slow on network ramp-up, banks say they are looking to continue their expansion into un-banked India, as they believe this will eventually translate into more business.

"If you see the transactions *per se* , it (financial inclusion) might not be profitable, but there is significant cross-subsidising happening," says SBI Chief General Manager (Rural and Agri Business) MG Vaidyan. He points out that it is not only the rural poor that are being catered to by network expansion, but the rural rich as well. "We give farm loans, car loans. It is good business," says Vaidyan. "We are in the process of bundling a lot of other transactions, such as selling life insurance and medical policies, which will be quite attractive," he adds.

This is probably why new banking correspondents, or agents, are still being recruited at a rapid pace. Having covered most villages with 2,000-plus population during the 2010-13 period, and the ranks of the banking correspondents swelling to 1,87,167, banks have now shifted focus to villages with populations less than 2,000.

While banks may be willing to foot the initial losses on the business, banking correspondents who deliver last-mile access in the financial inclusion chain are finding it tough to make ends meet.

Going by the rules adopted by various State Governments, minimum wages across the country range from Rs. 2,100 in States such as Bihar, Uttar Pradesh, Odisha, Rajasthan and Madhya Pradesh to Rs. 2,400 in Andhra Pradesh, Maharashtra and Karnataka.

But a separate MicroSave study of 2,932 villages with a population greater than 1,000 found only 2 per cent of the appointed agents were conducting less than 10 transactions a day and less than 4 per cent were earning more than Rs. 2,000 a month, with a median monthly income as low as Rs. 1,500.

What's more, only 7 per cent of the villages had transaction-ready correspondents and only 4 per cent with agents available to transact every day. The survey findings were based on interactions with 1,141 banking correspondents. These were spread across Andhra Pradesh, UP and Bihar. Vaidyan agreed that the income for agents could be seen as supplementary at best. One of the reasons for the losses being suffered by banks is the low transaction volume across millions of no-frills accounts opened under the financial inclusion drive.

With the correspondents not willing to devote time to service accounts, transactions tend to be low and, therefore, banks are unwilling to raise compensation for the agents.

It is being argued that using direct cash transfers to Aadhaar-linked bank accounts will translate into a saving of 4-5 per cent in the budgets for programmes such as MNREGA, Janani Suraksha Yojana, old-age pensions and scholarships now being paid to beneficiaries through a long chain of intermediaries.

"Better remuneration will incentivise the feet-on-street to deliver more proactively," said a spokesperson for Fino Paytech, an institution which has helped hire 32,000 correspondents for the financial inclusion drive.

SOURCE: THE HINDU BUSINESS LINE, MARCH 4, 2014

GOVT. MULLS NEW WAYS TO RAISE CAPITAL FOR BANKS

"Bankers have given various suggestions for raising Tier-1 capital. These suggestions include investment by pension funds and insurance companies, rights issue for minority shareholders at the time of capital infusion by the Government and issuance of shares to employees," Chidambaram told newspersons after a three-hour meeting with bankers here.

It is estimated that banks need around Rs. 1-lakh crore capital in the next few years to meet business needs. Capital of a bank is mainly divided into two categories, Tier 1 and Tier 2. Tier 1 is the core capital and it includes equity and declared reserves, while Tier 2 capital refers to revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt.

Financial Services Secretary Rajiv Takru told that pension and insurance money will flow intoTier-1 capital not as equity, but as bonds. It could be through various debt instruments, including perpetual bonds. Simply put, insurance and pension money will bolster the capital of banks through perpetual bonds issued by them.

The Pension Fund Regulatory and Development Authority have already allowed parking of pension money into bank capital as perpetual bonds. The insurance regulator will soon take a call on this matter. The IRDA board is likely to meet on March 10.

The Government has proposed to infuse Rs. 11,200-crore capitals into banks in 2014-15 as against Rs. 14,000 crore in 2013-14. But Chidambaram said keeping in mind RBI regulations of bank's CRAR (capital to risk assets ratio) of one per cent over and above Basel-III norms, more capital is required. That is why newer methods to mop up capital are being thought of.

Now, with the expansion of business and implementation of Basel-III norms, banks need more capital. The easy option is to offload shares in the market and mobilise money. But there is one problem. Rules say that Government's equity in State Bank of India, its associates and nationalised banks should not go below 51 per cent. However, in practice, the effort is to keep minimum Government's shareholding at 55 per cent.

As a result, many banks have limited room to sell shares to the general public.

Terming NPAs as the biggest challenge facing public sector banks, the Finance Minister asked them to focus on recovery of bad loans, improving the asset quality and better credit appraisal.

He confessed that NPAs are high among large corporate accounts and small industries while they have fallen for the real estate segment. NPAs or bad loans of public sector banks rose 28.5 per cent from Rs. 1.83-lakh crore in March 2013 to Rs. 2.36-lakh crore in September last year.

He mentioned that banks have managed to recover Rs. 18,933 crore during April-December while accounts worth around Rs. 22,000 crore have been upgraded, which means the NPA threat has faded.

SOURCE: THE HINDU BUSINESS LINE, MARCH 6, 2014

WRONG PRESCRIPTION FOR WEAK BANKS

It is unfortunate that there has been virtually no meaningful restructuring of public sector banks (PSBs) other than the merger of the New Bank of India with the Punjab National Bank. When private sector banks are in trouble, they are merged with PSBs.

Till the 1980s, banking regulatory norms the world over were slack; so too in India. In the initial stages of regulatory tightening, PSBs were just not allowed to show losses and there was massive and conscious cover-up, overtly aided by the Reserve Bank of India (RBI) and the government.

There were two major reforms in the post-1991 period. First, the government moved from 100 per cent ownership of PSBs to a minimum of 51 per cent.

Second, in 1992, with the introduction of capital adequacy, income recognition and provisioning norms, almost all PSBs had gaping holes in their balance sheets. To bolster confidence, the government undertook a massive operation to inject capital in a large number of PSBs. The stronger banks needed proportionately less recapitalisation and as they were progressively able to access the capital market, the share of government fell close to the 51 per cent minimum level.

In contrast, weaker PSBs needed large and repeated doses of recapitalisation and although these banks attempted to access the capital market, the government's share remained very high.

Along with the large recapitalisation, the weaker banks were put through the discipline of narrow banking to slow down their credit growth, refrain from raising high cost deposits and increased investments in government securities. While the average return on funds declined, the average cost of funds also declined. More importantly, fresh non-performing assets (NPAs) declined drastically while earlier NPAs were written off or were partially recovered.

The narrow banking concept was given up prematurely as political economy pressures came to the fore. It was erroneously argued that to ensure an adequate spread between the cost of funds and the return on funds, banks should step up lending.

Furthermore, it was argued that bank officials in weak banks were demotivated as they were not allowed to lend. The upshot was, narrow banking went into disuse and weak banks went into overdrive on lending. The sick ponies were put on steroids and passed off as race horses but the inherently weak stallions reverted to being sick ponies. In retrospect, it is clear the country has paid a heavy price for prematurely giving up the concept of narrow banking.

The recent issue with the United Bank of India should not be treated as a one-off case of poor management. It could reflect a deeper malaise as pressures to show better results end up in the concealment of NPAs.

Raising the question as to whether other PSBs are also afflicted by rising NPAs makes bankers and government officials hot under the collar --- yet, these concerns need to be articulated. There is no point arguing that raising issues result in self-fulfilling prophecies and that it is best not to even discuss awkward issues.

Given the staggering losses it incurred and the fact that current and savings bank accounts account for around 40 per cent of its total deposits, the United Bank of India is well suited to benefiting from narrow banking.

The present system is permissive in that the entire system veers towards a uniform growth rate of deposits and credit. If a bank fails to meet the banking regulatory norms, it should just not be allowed to grow. Injecting more government capital into weaker banks results in weakening the PSBs system as a whole.

It would be best if the government refuses to recapitalise weak banks; if maintenance of the regulatory norms is insisted upon, these banks will not be able to grow. Rather than extracting more dividends from banks, the government should merely put back the dividend as capital.

The RBI was a model proprietor of the State Bank of India (SBI). For many years after the nationalisation of the Imperial Bank of India, the RBI advised the SBI to plough back the dividends into a fund for expanding the rural reach. Reviving such policies would strengthen PSBs as stronger banks would grow faster than weaker ones.

About 15 years ago, the recently retired deputy governor Anand Sinha had admirably led the work in the RBI on prompt corrective action (PCA). Unfortunately, the PCA regime, with all its rigours, was not allowed to develop.

It would be better late than never to activate the PCA regime. When a PCA regime is imposed on a bank it should be put in the public domain. If such a regime is implemented at the incipient signs of sickness, the PCA regime need not be harsh.

It is sometimes argued that as India is a democracy we cannot allow banks to die. There is an erroneous perception that banks can lend, lose and live. The divine right of banks to immortality has to be debunked.

During the upswing of the economic cycle, the problems of weak banks get submerged in the euphoria of growth. The art of good regulation or supervision is to locate incipient trouble spots during good times. As the American business magnate Warren Buffett says, "Only when the tide goes out do you discover who's been swimming naked."

SOURCE: THE HINDU BUSINESS LINE, MARCH 7, 2014

BANK UNION WANT LOAN DEFAULTERS TO BE BARRED FROM CONTESTING POLLS

In a letter to the Chief Election Commissioner, the associations asked the commission to take steps to debar willful defaulters who owed public sector banks huge sums of money.

The association, giving out statistics to prove its point, noted that bad loans of banks had shot up to Rs. 1.64-lakh crore by the end of fiscal 2012-13. Over the past five years, banks had made a provision of Rs. 1.40-lakh crore against bad loans. Besides, in the past five years, Rs. 1.18-lakh crore loans had been written off.

"What is disturbing is that amounts involved in willful default of bank loans are also increasing," the letter pointed out.

"Some of these defaulters are holding high positions. One of the borrower companies, in which a Central Minister is directly connected, is a defaulter to the tune of Rs. 350 crore." Two top loan defaulters were Padma Shree awardees and they owed Rs. 930 crore and Rs. 580 crore, respectively. Another top defaulter is a Rajya Sabha member who owed banks more than Rs. 6,000 crore.

"Hence, besides various other existing disqualifications as provided under the Constitution and the Representation of the People Act, 1951, a specific provision should be added to debar and disqualify candidates from contesting in the ensuing elections to the Lok Sabha, if they or the companies to which they are connected are defaulters of loans to banks," the association said.

SOURCE: THE HINDU BUSINESS LINE, MARCH 20, 2014

KC CHAKRABARTY QUITS RBI

KC Chakrabarty, Deputy Governor, Reserve Bank of India, has quite three months ahead of the completion of his term. He had been appointed Deputy Governor in June 2009 for a period of three years. In 2012, he got an extension of two years.

According to RBI insiders, he is likely to take up an overseas assignment.

"Chakrabarty has requested for a slightly earlier departure (April 25) than the scheduled one (June-end) for personal reasons," said an RBI spokesperson.

He is likely to meet Finance Minister P Chidambaram on Friday. The resignation has to be accepted by the Government as he is a government appointee.

Nine departments, including Financial Stability, Urban Banks, Currency Management and Credit, were reporting to him.

Known for his outspokenness, Chakrabarty was stripped of key portfolios in 2010 when he reportedly told journalists, off the record, that the RBI should have been more aggressive in combating inflation. Subsequently, his portfolios were restored.

Chakrabarty held bankers responsible for bad loans and corporate debt restructuring, blaming lax appraisal.

SOURCE: THE HINDU BUSINESS LINE, MARCH 21, 2014

AXIS BANK STAKE SALE FETCHES GOVT. RS. 5557 CR.

The sale of its residual stake in Axis Bank to a host of investors, including Life Insurance Corporation of India and Citi Group Global Market Maruti Pvt Ltd, helped the Government mop up Rs 5,557 crore on Friday.

Bulk deals reported on the Bombay Stock Exchange show that New World Fund Inc and Goldman Sachs Singapore Pte. also picked up shares put on the block.

The government stake in Axis Bank is held by the Specified Undertaking of the Unit Trust of India (SUUTI), which was formed in 2003 after the restructuring of the erstwhile Unit Trust of India.

As of December 2013 SUUTI owned a 20.72 per cent in India's third largest private sector lender.

On Friday, SUUTI offloaded about 4.22 crore shares of the 9.72 crore shares it holds in Axis Bank.

After the sale, its stake has come down to about 11.72 per cent.

LIC forked out about Rs. 1,122 crore at Rs. 1,313.25 per share to increase its stake in Axis Bank from 9.32 per cent as of December 2013 to 11.14 per cent.

After the Government, the state-owned life insurer is the biggest stakeholder in most public sector banks.

LIC is also categorised as a "promoter and promoter group" in many private sector banks.

Citigroup paid Rs. 503.18 crore to pick up 38.23 lakh shares at Rs. 1,316.13 a share while New World Fund Inc bought 26.88 lakh shares (at Rs. 1,315.12 per share) by paying Rs. 353.50 crore.

Goldman Sachs Singapore Pte bought 23.50 lakh shares (at Rs. 1,323.57 per share), stumping up Rs. 311 crore.

While LIC, Citigroup, New World Fund and Goldman Sachs together picked up 1.74 crore shares, the remaining 2.48 crore shares sold on Friday were reportedly picked up by other state-owned insurance companies and public sector banks.

Axis Bank shares rose 2.69 per cent on the Bombay Stock Exchange on Friday to close at Rs. 1,393.40.

SOURCE: THE HINDU BUSINESS LINE, MARCH 22, 2014

BANKS DENIED ACCESS TO WEALTH
TAX RETURNS OF DEFAULTING BORROWER

The efforts of banks trying to gather information on the wealth tax returns filed by their borrowers, who deliberately defaulted on loans, appear to have run into a stone wall.

Though the details of wealth in the hands of defaulters (as stated in the wealth tax returns) could be useful for recovery of dues, the income tax authorities do not share the same with banks even under the Right to Information Act.

This issue was flagged at a recent meeting of public sector bank chiefs with Finance Minister P Chidambaram.

A borrower who deliberately defaults on loans is classified as willful defaulter by banks if, among others, he/she does not pay the dues despite adequate cash flow and strong net worth; and diverts/siphons off funds to the detriment of his unit.

Often, borrowers who deliberately default on loans only partially declare the immovable and movable assets they own at the time of taking a loan.

Once the loan goes bad and recovery proceedings are initiated, banks find that the assets have already been pledged, sold, disposed of, charged, encumbered or alienated.

It is in such cases that the wealth tax returns could prove handy, allowing banks to go after the unencumbered assets of defaulting borrowers.

A wealth tax return has details pertaining to immovable assets (buildings, urban land and agricultural land) and movable assets (cash in hand, gold, silver, platinum or other precious metals, motorcars and yachts, among others).

A senior State of Bank India official said "When revenue authorities have free access to cash transaction reports filed by banks, why can't banks be given access to the wealth tax returns of defaulting borrowers?

"We have fiduciary responsibility towards the public as we are dealing with their savings. So, in public interest, the revenue authorities should allow us to peruse the returns filed by loan defaulters."

The Department of Financial Services is expected to take up this plea of bankers with the Department of Revenue.

The issue of resolving bad loans, including those on account of willful defaults, assumes urgency as such loans in gross terms have jumped 42 per cent (or by Rs. 65,298 crore) in the first nine months of the current financial year to Rs. 2,21,188 crore as at December-end 2013 in the case of public sector banks.

Currently, banks engage the services of private detectives or legal firms to dig out the details of assets (over and above those already pledged with them) of defaulting borrowers. If the revenue authorities readily provide wealth tax return details, banks need not incur expenditure on hiring private detectives/legal firms.

Source: THE HINDU BUSINESS LINE, MARCH 26, 2014

NINE TOP BANKERS IN FRAY FOR DEPUTY GOVERNOR POST

These aspirants will appear for an interview on March 28 before a panel comprising, among others, RBI Governor Raghuram Rajan and Financial Services Secretary Rajiv Takru.

The Department of Financial Services in the Finance Ministry has already taken "willingness letters" from the nine chairman and managing directors, sources close to the development said.

The nine who have thrown their hats into the ring for the RBI Deputy Governor's post are the CMDs of Bank of Baroda, Punjab National Bank, UCO Bank, Bank of India, Oriental Bank of Commerce, Indian Bank, Dena Bank, Indian Overseas Bank and Canara Bank.

KC Chakrabarty, who is currently holding the post assigned for a banker among the four RBI Deputy Governors, had recently sought early retirement and wished to be relieved from his duties at the end of office hours on April 25.

SOURCE: THE HINDU BUSINESS LINE, MARCH 26, 2014

RBI EXTENDS DEADLINE TO IMPLEMENT BASEL III NORMS TO 2019

The Reserve Bank of India has extended the timeline for full implementation of the Basel III capital regulations by a year to March 31, 2019.

This breather comes in the wake of industry-wide concerns about the potential stresses (of the implementation of the regulations) on the asset quality and consequential impact on the performance/profitability of banks.

The RBI, in a notification, said: "This (implementation of Basel III capital regulations) may necessitate some lead time for banks to raise capital within the internationally agreed timeline for full implementation of the Basel III capital regulations.

"Accordingly, the transitional period for full implementation of Basel III capital regulations in India is extended up to March 31, 2019, instead of as on March 31, 2018."

The central bank also said the breather will align full implementation of Basel III in India closer to the internationally agreed date of January 1, 2019.

Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector.

In terms of Basel III capital regulations issued by the RBI, the Capital Conservation Buffer (CCB) will be implemented from March-end 2016 (against March-end 2015 earlier). Consequently, the Regulations will be fully implemented as on March-end 2019 (against March-end 2018 earlier).

The RBI has also revised the transitional arrangements pertaining to minimum capital ratios that banks need to maintain as a percentage of their risk-weighted assets (or loans).

As regards 'distributable items', the central bank clarified that the dividend on common shares and perpetual non-cumulative preference shares (PNCPS) can be paid out of the current year's profit only.

Further, if the payment of coupons on perpetual debt instrument (PDI) is likely to result in losses in the current year, their declaration should be precluded to that extent.

SOURCE: THE HINDU BUSINESS LINE, MARCH 28, 2014

DEFERRING BASEL III WILL EASE BANKS' CAPITAL NEEDS IN THE INTERIM, SAY RATING AGENCIES

Though the RBI has given banks a breather by extending the transitional period for full implementation of Basel III regulations by a year, credit rating agencies have warned that investors will seek higher coupons on their non-equity capital instruments.

Last week, the RBI decided to extend the implementation of Basel III capital regulations by a year to March 2019, thereby leading to lower capital requirements for banks in the interim.

According to Crisil Ratings, the extension of the transition period by a year will lead to reduction in capital requirements of banks by Rs. 40,000 crore up to March 2018 from an earlier estimate of Rs. 2.7 lakh crore.

However, the capital regulations also increase the risks in the banks' Tier I capital instruments, and will lead to higher cost for banks.

Pawan Agrawal, Senior Director, Crisil Ratings, said, "This release of capital will enable banks to offset the impact of lower internal generation of capital due to the prevailing squeeze on their profitability in the current economic cycle."

According to ICRA estimates, Tier I capital requirement of public sector banks to meet growth as well as Basel III norms would increase from Rs. 3.3-3.6 lakh crore to Rs. 3.9-4.2 lakh crore due to the longer transition period; while during FY2015-2018, the requirement would fall from Rs. 3.3-3.6 lakh crore to Rs. 2.8-3 lakh crore.

"As there is no relief on overall capital requirement on full implementation of Basel III norms, capital would remain a big challenge for PSBs," the rating agency said.

However, the dependence on raising external capital will remain high, especially for public sector banks.

According to Crisil, the guidelines increase the cost of raising Tier I instruments for banks by introducing risk-mitigation features.

The first risk relates to the higher risk of coupon non-payment for investors arising from the stipulations that banks can pay coupon only out of current year's profits (and not from retained earnings), and that the coupon payout be capped at 40 per cent of a bank's total distributable surplus for the year.

The second risk is the increase in potential loss of principal due to the provision that disallows banks to opt for temporary write-down in the event of breach of pre-specified trigger.

In ICRA's opinion investor appetite for permanent write-down feature could be low, this could result in fresh issuances of non-equity Tier I capital instruments only with the conversion feature.

A Fitch Ratings report said, "The flipside is that greater loss absorbency would come at the cost of being less investor-friendly. Tier 1 securities are expected to shoulder a large share of the capital burden and investor appetite is currently limited, adding to the capital raising challenges."

SOURCE: THE HINDU BUSINESS LINE, APRIL 1, 2014

RAJAN STICKS TO THE SCRIPT, HOLDS KEY RATES

Reserve Bank Governor Raghuram Rajan did not spring any surprises on Tuesday.

He kept key policy rates unchanged in the central bank's first bi-monthly monetary policy announcement.

As expected, the RBI retained at 8 per cent the rate at which it provides overnight funds to banks (also known as the repo rate).

The amount of cash that banks have to park with the RBI — the cash reserve ratio — has also been left unchanged at 4 per cent of deposits.

With the RBI holding its policy rates steady, banks are unlikely to tinker either with deposit or lending rates.

After hiking the repo rate thrice, by 25 basis points each, in the September 2013 to January 2014 period, the RBI chose to take a breather as inflation, both retail and wholesale, rates eased.

Moreover, with economic growth concerns remaining significant (GDP growth was sub-5 per cent for seven successive quarters) and factory output stagnate for two successive years, the RBI may have had no choice but to stay put.

"At the current juncture, it is appropriate to hold the policy rate, while allowing the rate increases undertaken during the September 2013-January 2014 period to work their way through the economy," said Rajan.

"Furthermore, if inflation continues along the intended glide path (8 per cent retail inflation by January 2015 and 6 per cent by January 2016), further policy tightening in the near term is not anticipated at this juncture."

Even as it held policy rates steady, the RBI further reduced the quantum of overnight funds that banks can borrow from it while commensurately expanding their access to term money (of seven and 14 days duration). The primary objective of this move is to improve the transmission of policy impulses across the interest-rate spectrum.

On inflation, the Governor cautioned that there are risks to the forecast of 8 per cent retail inflation by January 2015. The risks include a less-than-normal monsoon because of the possible El Nino effect, the uncertainty on minimum support prices for agricultural commodities and other administered prices, and the outlook for fiscal policy.

Excluding food and fuel, however, retail inflation remained sticky at around 8 per cent.

This suggests that some demand pressures are still at play.

Contingent upon the desired inflation outcome, the RBI said, real GDP growth is projected to pick up from a little below 5 per cent in 2013-14 to a range of 5 to 6 per cent in 2014-15, albeit with downside risks to the central estimate of 5.5 per cent.

On the possibility of the new government not being stable, the Governor said: "Clearly, the markets right now are anticipating a stable government and rapid policy action.

"And to the extent that markets are disappointed, it will reflect on stock markets, perhaps on bond markets, perhaps on exchange markets. We have to be prepared for some turmoil."

SOURCE: THE HINDU BUSINESS LINE, APRIL 2, 2014

IDFC, BANDHAN GET RBI APPROVAL TO START BANKS

IDFC and Bandhan Financial Services Private Ltd have been selected by the Reserve Bank of India to set up banks, from a field of 25 aspirants.

The RBI consulted the Election Commission before granting "in-principle" approval to these entities, as a precautionary measure.

Incidentally, both IDFC and Bandhan are non-banking finance companies. While Mumbai-based IDFC is classified as an infrastructure finance company, Kolkata-based Bandhan is a microfinance institution.

The central bank is issuing new bank licences for the first time in ten years. Kotak Mahindra Bank and YES Bank were set up in the last round, in 2004.

IDFC and Bandhan were recommended as suitable for grant of "in-principle" approval by the High Level Advisory Committee set up by the RBI.

The RBI said its approach in this round of bank licences could be categorised as conservative.

"At a time when there is public concern about governance, and when it comes to licences for entities that are intimately trusted by the Indian public, this may well be the most appropriate stance," the central bank said.

Rajiv B Lall, Executive Chairman, IDFC, said: "The transition from a non-banking finance company specialising in infrastructure finance to a bank will entail lot of hard work. We will become a universal bank."

The Advisory Committee had also recommended that in the case of Department of Posts, which has applied for a licence, it would be desirable for the RBI to consider the application separately, in consultation with the Government.

Among the big names with hats in the ring are: Aditya Birla Nuvo, Bajaj Finserv, LIC Housing Finance Ltd, L&T Finance Holdings, Reliance Capital, Religare Enterprises and Shriram Capital.

The RBI said it assessed the quantitative and qualitative aspects of the applicants as per the criteria laid down in the guidelines. Based on this, it took a view on the "fit and proper" status of the applicant, it said in a statement.

The approval granted to the two applicants will be valid for 18 months, during which time they have to comply with the requirements on licensing of new banks in the private sector and fulfill other conditions stipulated by the RBI.

Once these conditions are met, they will be considered for grant of a banking licence. Until a regular licence is issued, the applicants will be barred from the banking business. "Both firms have a profitable business model and are aptly chosen from the financial inclusion and responsible banking perspective," said Monish Shah, Senior Director with Deloitte India.

Going forward, the RBI intends to use the learning from this exercise to revise guidelines appropriately and give licences more regularly, that is, virtually "on tap". It will also frame categories of differentiated bank licences, building on its prior discussion paper, and allowing for a wider pool of entrants into the banking sector.

SOURCE: THE HINDU BUSINESS LINE, APRIL 3, 2014

R. GANDHI APPOINTED RBI DEPUTY GOVERNOR

R Gandhi has been appointed as Deputy Governor of the Reserve Bank of India by the Government. According to a Government notification, his appointment will be for a period of three years.

Gandhi's appointment follows Anand Sinha relinquishing his charge as Deputy Governor in mid-January. Including Gandhi, the RBI now has four Deputy Governors – KC Chakrabarty, HR Khan and Urjit Patel. Gandhi, who joined the RBI in 1980, was Executive Director of the central bank since March 2011.

Besides Gandhi, the RBI EDs who were in the race for the Deputy Governor's position were G. Gopalakrishna, B. Mahapatra, P. Vijaya Bhaskar, and Deepali Pant-Joshi.

As ED, Gandhi was in-charge of five departments — Human Resource Management, Currency Management, Central Security Cell, Internal Debt Management and Rajbhasha.

The Government is expected to appoint another Deputy Governor to replace KC Chakrabarty, who has sought early departure (on April 25, 2014) than the scheduled term-end (of June-end 2014), for personal reasons.

Among the commercial bankers being considered by the Government for appointment in Chakrabarty's place are KR Kamath, Chairman and Managing Director of Punjab National Bank and Chairman of Indian Banks' Association; SS Mundra, CMD, Bank of Baroda; VR Iyer, CMD, Bank of India; RK Dubey CMD, Canara Bank; and M Narendra, CMD, Indian Overseas Bank.

SOURCE: THE HINDU BUSINESS LINE, APRIL 4, 2014

OFFICERS' BODY FOR SETTING UP AUDIT COMMISSION FOR PUBLIC SECTOR BANKS

The All India Bank Officers' Association has urged President Pranab Mukherjee to help set up a Banking Audit Commission on the lines of the Comptroller and Auditor General of India (CAG) for the entire banking system.

Voicing concern over the rising incidence of bad loans in the sector, the AIBOA has said the responsibility of auditing the accounts of public sector banks must be given to an external authority/ committee consisting of members with proven integrity and moral standing.

"This audit should be done for the just-ended fiscal and within a fixed time schedule. The report should be submitted to the President," AIBOA General Secretary S Nagarajan told *Business Line*, adding "the mess which we are in today is not because of something that has happened in the recent past. It started in the early 90s."

Endorsing the RBI's observation on the committee method of sanctioning loans, the association has sought to make every member of the committee accountable, together with the Chairman, the Government representative and the RBI nominee for their failure to check deviations during their tenure, as a result of which such sanctions had turned bad.

Urgent steps need to be taken to declare those defaulters with sufficient resources to clear their bank dues as 'willful defaulters under criminal procedure code', the AIBOA General Secretary said. Bank loan defaulters must also be prohibited from contesting in elections, at any level, the association has urged.

Sharing bank-wise details of bad loans and the amounts written off by the banking system year after year since 2007, Nagarajan appealed to the President to urge Indian Banks' Association to publish the caution list on bi-monthly basis for the benefit of member banks.

SOURCE: THE HINDU BUSINESS LINE, APRIL 8, 2014

PUBLIC SECTOR BANKERS PLAN TO ASK FINANCE MINISTRY FOR 5 DAY WEEK

Executives from State-owned banks seem determined to prove to the Finance Ministry that a five-day work week is feasible in the banking sector.

While the ministry turned down bankers' earlier feelers to this end, this time round, the bankers intend to knock on its doors with a cost-benefit analysis for a five-day week.

The ministry has contended in the past that the cause of financial inclusion would suffer with a shorter week, but bankers feel that in this age of modern technology, a bank is accessible to customers 24/7 via alternative delivery channels such as ATMs, the internet, mobile commerce and business correspondents. Financial Inclusion refers to mainstream banks ensuring all sections of society, in general, and vulnerable groups, in particular, have access to financial products and services at an affordable cost, in a fair, transparent manner.

According to a top public sector bank official, the Indian Banks' Association will carry out a cost-benefit analysis of the five-day work week pattern and the same will be placed before the ministry for its consideration.

A trade union official wondered why bank employees should be denied the benefits of a five-day week when Central Government employees have been enjoying them for nearly three decades.

To increase efficiency in administration, the Union Government had introduced the five-day week in 1985, increasing daily working hours during the five days by an hour.

According to RBI data, there were 11,75,149 employees working in 169 scheduled commercial banks in the country as of March 2012.

Outlining the benefits of a five-day week to employees in a note, the UK's labour department said they could have sufficient rest, time with family, and time for further studies and personal interests.

When it comes to employers, the note said the five-day work week would enhance a company's efficiency, reduce absenteeism, enhance the enterprise's competitiveness, and retain talent.

SOURCE: THE HINDU BUSINESS LINE, APRIL 19, 2014

AIRRBOF News Letter
May, 2014
Sky is not the limit, we cover it...
The Voice of All India RRB Officers' Federation
Vol - XXI SILIGURI No. 05

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

EDITORIAL BOARD

Edited & Published by
Shri S.K. Bhattacharjee on behalf of AIRRBOF.

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