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professional excellence

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Top Stories

RBI raises RTGS transfer limit to ₹2 lakh

The Reserve Bank of India (RBI) has raised the threshold limit for Real Time Gross Settlement (RTGS) transactions from ₹1 lakh to ₹2 lakh, thus allowing free-of-cost transfer of ₹2 lakhs, through banks. Further, RBI has also introduced a new value band for National Electronic Fund Transfer (NEFT) in order to promote electronic transactions amongst customers. According to the revised rates, banks can levy ₹25 as service charge for transactions from ₹2 lakh to ₹5 lakh and of ₹50 for transactions exceeding ₹5 lakh.

LIC gets RBI nod to issue pre-paid cards to clients

The Life Insurance Corporation (LIC) of India's card division has received permission to issue pre-paid cards into which policy benefits will be credited. Banks may issue pre-paid instruments to LIC for credit of either one-time or periodic payments by the Corporation to its customers.

Public Sector Banks take lead in opening ATMs

Public Sector Banks (PSBs) are now spearheading the proliferation of ATMs in the country. Offsite ATMs have grown by 70% to 16,883 (9,898) in the 2009-10 fiscal. The State Bank Group has more than doubled its offsite ATMs to 9,836 in the 2009-10 fiscal against 4,193 in the previous fiscal. The other nationalized banks have increased their offsite ATMs by almost 24% to 7,047 sites against 5,705 in the previous fiscal.

Government to set up Bankers' Group

The Central Government plans to set up a consortium of PSBs to be headed by the State Bank of India (SBI). The consortium would brainstorm on ways and means (such as, special instruments) to make low cost funding available for power projects being set up under the National Solar Mission.

The mission of the Institute is "to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs."



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Banking Policies

Financial conglomerates under scanner

In order to reduce the risk profile of financial conglomerates with diversified business interests, the RBI has asked them to set aside more capital if their exposure to associated entities exceeds 20% (as against the earlier 30%) of the paid up equity of these entities.

Asset prices, exchange rates to be watched : RBI

Asset prices and exchange rate movement will be closely monitored by the RBI, in the wake of fears that large portfolio inflows in emerging market economies (EMEs) can adversely affect inflation and external competitiveness. According to RBI, substantial increase in capital inflows led by Foreign Institutional Investors (FIIs), have significantly increased the stock prices, and also strengthened the domestic currency against the US dollar. Also, improved global credit market conditions coupled with widening interest rate differential, have facilitated higher access to External Commercial Borrowings (ECBs) by the corporate sector.

RBI exhorts banks to promote e-payment options

RBI has asked banks to push the use of electronic transactions among customers. Serpentine queues in front of teller counters despite ATMs and net-banking facilities being available, need to be curbed. RBI is keen that banks improve their penetration of electronic payment and for that, educate their customers about the array of options like RTGS, NEFT and Electronic Clearing Service (ECS) available for transaction.

RBI's concern on minimum balance penalty

The RBI has instructed banks to be more transparent and levy reasonable penal charges. There has been a rise in customers' complaints about banks levying steep penalties for even a marginal dip in the minimum balance in a savings account. Instances of customers being penalised on flimsy grounds have also not escaped the regulators' notice. However, RBI will nevertheless continue with its policy of letting individual banks decide the charges.

Banks will need an approval before investing in non-financial companies : RBI

Banks' investments in non-financial companies will now come under the RBI's scanner; as they will have to seek RBI's approval before floating or investing in non-financial companies. RBI has proposed prudential limits to regulate banks' investments in companies engaged in businesses other than financial services. Moreover, banks will be required to review their investments in such

companies and comply with the guidelines according to the roadmap to be laid down.

RBI goes strict on settling export orders through online payment

The RBI has issued stiff guidelines for settlement of export-related receipts through Online Payment Gateways (OPG) and decided to allow Authorised Dealers Category-1 banks to handle repatriation of export-related receipts by entering into standing arrangements with OPG Service Providers (OPGSP). Banks desiring to offer such services must obtain one-time permission from RBI and there-after report the details of arrangement with each OPGSP as and when entered into.

RBI eases rules for RRBs to open branches

The RBI has allowed Regional Rural Banks (RRBs) to open branches without its permission in cities with population of less than 50,000. However, such RRBs should meet certain regulatory provisions like capital adequacy ratio (CAR) of at least 9% and net NPA of less than 5%. Besides, it should have had net profit in the last financial year.

RBI opens fresh window to ease liquidity woes

RBI has re-introduced liquidity easing measures to prevent disruption in financial markets and maintain credit flow in the system as rising government cash balances lead to cash shortage. A second **Liquidity Adjustment Facility (LAF)** will be operational till December 16th and banks will be exempt from penalty up to a percentage point fall in the statutory liquidity ratio (SLR) of 25%. It has also made borrowing against corporate bonds more attractive. Further additional liquidity support under the LAF upto 2% of their NDTL as on reporting Friday of the second preceding fortnight with immediate effect upto January 28th, 2011.

Banking Developments

RBI data shows decline in credit flow to agriculture

Credit flow to industry, services and personal loan segments has accelerated during the current financial year, which has however seen a further decline in credit flow to agriculture. Also, though the credit flow to industry has improved, it is not yet broad-based. The credit growth is mainly driven by flow of credit to infrastructure, iron and steel, chemicals and chemical products, other metal and metal products and engineering industries.

Yes Bank gets \$25 million loan from Wells Fargo

Yes Bank has availed itself of a \$25 million term loan from the US-based Wells Fargo Bank to exclusively finance its small and medium enterprises (SME) clients. The



loan will be guaranteed by Overseas Private Investment Corporation (OPIC), an agency of the United States government, which helps US businesses invest overseas. This is a first-of-its kind in India structure wherein OPIC is partially guaranteeing the loan to Wells Fargo.

Axis Bank buys Enam Sec in ₹2,067 crore deal

Axis Bank has acquired the investment banking and equity capital market business of Enam in an all-stock deal valued at ₹2,067 crore. Following this, Enam will become an Axis Bank subsidiary, headed by Shri. Manish Chokani, (Enam Director). Enam Securities will demerge its investment banking, institutional & retail equities and related businesses *viz.* the NBFC and distribution of financial products to a wholly owned subsidiary of Axis Bank. The bank will also demerge its investment banking unit into the subsidiary.

Trend & Progress Report : A Snapshot

Banking Performance

- Gross NPAs as a ratio to gross advances for commercial banks increased from 2.25% in FY09 to 2.39% in FY10.
- Profitability declines as return on assets (RoA) was lower at 1.05% in FY10 than 1.13% during the previous year.
- Cost, as well as, return on funds declined in 2009-10. In particular, the decline in return on advances was most striking from 10.50% in 2008-09 to 9.29% in 2009-10, especially for foreign and new private sector banks.
- The spread i.e. the difference between return and cost of funds - fell marginally by about 0.10 percentage points in 2009-10. At the bank group level, the fall in the spread was again most striking for foreign banks.
- Net Profit of the banking sector rose 8.3% to ₹57,109 crore; while operating profit rose 10% to ₹1,22,000 crore.
- Share of foreign banks in total assets fell from 8.5% in 2009 to 7.2% in 2010; while the share of PSBs went up from 71.9% to 73.7% in 2010. Old private banks marginally improved their share to 4.5% from 4.4% in the previous year, while that of new private banks fell slightly from 15.2% to 14.6%.
- The percentage of current and savings account (CASA) deposits, increased from 33.2% to 35.4% between 2008-09 and 2009-10. Savings deposits alone contributed for about 34% to the total increment in deposits in 2009-10.

₹90,000 crore credit disbursed to farmers in Q1

Banks have disbursed a credit of around ₹89,687 crore to farmers in the April-June quarter of this fiscal. The government has fixed the credit flow target during 2010-

11 fiscal at ₹3,75,000 crore. The government has taken several measures for improving agricultural credit flow and reducing the rate of interest (RoI) on farm loans. Banks provide farm loan at a RoI of 7%. However, those farmers who are making timely payment are getting crop loan at RoI 5% from the current fiscal.

Instant mobile payment service is here

The National Payment Corporation of India is rolling out an instant interbank mobile payment service (IMPS) that will enable retail customers of seven banks to enjoy 24 X 7 funds transfer. SBI, Bank of India (BoI), Union Bank of India, ICICI Bank, HDFC Bank, Axis Bank and Yes Bank were the first set of banks to go live with the IMPS.

Regulators Speak...

Excerpts from the speech delivered by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the launch of course on “Customer Service & Banking Codes and Standards” on Nov 12, 2010 at IIBF, Mumbai.

“We only advocate that customers be treated fairly. Everyone would like to have cheaper services. However, the minimum we can offer is fairness, speed and delivery. And this is entirely in banks interest.

Commercial banks must also resolve to reduce customer grievances by adopting the following eight principles on Treating Customers Fairly :

1. Minimum courtesy and behavioural standards
2. Transparency
3. Non-discriminatory policy
4. Deliver what is promised
5. Allow seamless 'switching' of products without excessive penalty
6. Establish a suitable mechanism for customer grievance redressal within a specific timeframe
7. Appropriateness of 'sell' and
8. Firm and polite stand against unreasonable customer demands

So, having identified the problem, what needs to be done? It is neither the hardware nor the software but the humanware which is going to improve the customer service. Therefore, for every employee to be able to offer good customer service, apart from good governance, training and development of staff is extremely important and, hence, the relevance of this course of IIBF. However, the introduction of a Certificate Course in Customer Service must not be an end in itself. It needs to be carried forward from the individual to the institutional level by suitably tweaking the performance recognition / rewards

system to send out a positive feedback to other aspiring bank personnel to try and get this recognition and practice it in workplace. I urge upon the bank managements to provide the necessary encouragement to their staff to take up this examination.” (For details please see RBI website)

Mr. Pranab Mukherjee asks banks to improve asset quality

Expressing concern over the fall in profits of the country's banks in 2009-10, the Union Finance Minister, Mr. Pranab Mukherjee, has asked them to improve asset quality to be able to support India's 9% growth in the coming years. “Banking sector needs to support this growth momentum in the economy while giving due attention to the asset quality and prudent provisioning to balance emerging returns and risks,” he said.

Subsidy-based lending model is unsustainable : Dr. Subir Gokarn

According to Dr. Subir Gokarn, Deputy Governor, RBI, “lending based on a subsidy model is unsustainable for banks and will not aid financial inclusion. It is very important that lenders also find the lending viable. Lender needs to lend at a cost which is lower than the return generated to make it viable. A commercially unviable credit delivery system cannot aid financial inclusion” Dr. Gokarn further says that “There is a need to offer other financial products and improve access to financial markets. The achievement of inclusion will bring an entirely new set of customers and not merely create deposit accounts.”

Loan disbursement mechanism should be transparent, says Dr. D. Subbarao

Dr. D. Subbarao, Governor, RBI has opined that there is a severe need for transparency and accountability in the mechanism for loan disbursements; especially in view of the rising grievances and complaints against the same. Access to finance is not a privilege for a few; RBI is working on reaching out to more people under its financial inclusion programme through Banking Correspondents (BCs) and Micro Finance Institutions (MFIs).

Co-operative Banks

Urban Co-operative banks get a policy boost

In an effort to ensure growth of well-managed and financially sound urban co-operative banks (UCBs), the RBI has proposed withdrawing restrictions on grant of multi-state status for those having a minimum net worth of ₹50 crore. UCBs acquiring weak banks in other states will be allowed to extend their area of operation to the entire state of registration of the target bank.

Slowdown dents margins of UCBs in 2009-10

Facing the brunt of economic slowdown due to the global financial turmoil, Indian UCBs have reported a drop in the net interest margin (NIM) in 2009-10. NIMs for the sector declined to 2.5% for 2009-10, from 2.9% in 2008-09. Net profits have declined in the past two financial years.

Microfinance

Strapped MFIs seek ₹1,000 crore

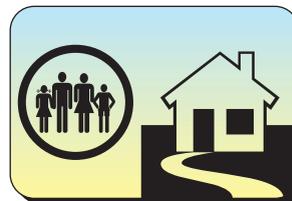
Cash-strapped microfinance firms have sought emergency funds worth ₹1,000 crore from banks. This corroborates that, the beleaguered industry's options of tiding over an acute liquidity crisis caused by the Andhra Pradesh government's move to regulate the industry, are fast running out. The funds will be used to tide over liquidity crisis for any MFI, to obviate default, as well as to permit token disbursements in outside Andhra Pradesh so that recoveries continue there.

Banks agree to resume MFI lending, but counsel caution

Banks have agreed to normalize lending to MFIs but have asked them to be extremely cautious to prevent slippages. MFIs raise 75-80% of their funds via bank borrowings, 15% from equity and 10% from other sources like cash securities. Banks had become reluctant to lend to MFIs, especially those that had a large exposure in Andhra Pradesh and held weekly collection of dues.

No takers now for securitized microfin loans

Investors are shying away from securitized loans of MFIs, as the ordinance issued by the Andhra government has slowed recoveries, creating uncertainty around the underlying portfolio. 1/3rd of the country's micro-finance lending happens in AP. Securitisation is the process through which MFIs pool the receivables from loans given to their customers and sell these to third parties like banks, insurance companies and mutual funds. Unlike the traditional loan portfolio sale or assignment, in this process the MFI portfolio is rated and converted into standardized securities, which can be traded more easily.



Insurance

Life insurers' premium rises 23% on new business

As noted by the LIC, the total premium of life insurance industry has risen by 23% to ₹1,25,254 crore as of

September 2010 against the same period in the previous year. The growth is due to a 60% loan increase in the new business premium, and also due to a strong show put up by LIC. The growth is all the more noticeable since the said period was marked by significant changes in product profile of unit-linked insurance plans (ULIPs).

Easy norms to help banks infuse extra capital in insurance arms

In a bid to help banks infuse additional capital in their insurance subsidiaries, the entire investments in the paid-up equity of the subsidiaries (including insurance entities), will be deducted at 50% from Tier-I and Tier-II capital each. In this way, the banks will be able to infuse more capital to the insurance subsidiaries. RBI has also reduced the investment threshold in subsidiaries to 20% from 30% for applying its new norms.

Capital Markets

FII's asset base swells to over ₹11 lakh crore

Even as FII inflows into India are set to go further up, SEBI data on monthly FII assets under management outstanding for September 2010 shows an all-time high of ₹11,24,352 crore. "There are not many places for investors to go other than emerging markets especially India and commodities," says, Mr. Abbas Merchant Senior Asst. VP, Research, Jaypee Capital.

BSE, NSE issue norms to put scrips under watch

The Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) have published the rules for putting scrips under surveillance. This follows cases of sharp price movements prior to a stock's inclusion or exclusion in the trade-to-trade (T-T) group.

Commodities Markets

NCDEX launches Agri Index

The National Commodity and Derivatives Exchange (NCDEX) has launched an 'agri index' called 'Dhaanya' in order to provide a reliable benchmark for the exchange traded agri-commodities in India. Dhaanya, to be known as prosperity in future, reflects 10 most liquid agri commodities on the exchange platform. It has two components. Half the weightage of every commodity demonstrates total production in the country, while the other half represents the liquidity factor on exchange factor. Weightage on each commodity will vary depending upon volume of trade on exchange platform and national economic importance.

International News

Fed to buy \$600 billion Treasuries to boost struggling economy

The US Federal Reserve will buy an additional \$600 billion of treasuries expanding record stimulus and risking its credibility to reduce unemployment and avert deflation. Policy makers, who've pegged new purchases at about \$75 billion a month, will adjust the program to best foster maximum employment and price stability. The Central bank kept its pledge to keep interest rates low for an 'extended period'.

No gold standard, but its role important : WB chief

World Bank President Mr. Robert Zoellick says that he was not advocating a return to a gold standard for exchange rates, but described the metal as "the elephant in the room" that policy makers need to acknowledge. Mr. Zoellick, who was attending an infrastructure conference organised by World bank and the Singapore government, said it was important for nations to look beyond exchange rates and focus on economic fundamentals.

Ireland to begin bank talks in prelude to possible aid

European Union and International Monetary Fund (IMF) experts have started scanning the books of Ireland's debt-laden banks in a prelude to a possible aid package to stem Europe's widening fiscal crisis. Finance chiefs from the 16-country Euro area say that the joint assessment will determine whether Ireland can patch up the banking system on its own or needs to fall back on the EUIMF \$750 -billion (\$1 trillion) rescue fund.

Fed requires test for banks before restoring dividend

The Federal Reserve will require big banks to undergo a new round of stress tests - this time, to determine if they are sound enough to begin raising their stock dividends. The announcement came after banks pressurised regulators for months to let financial companies restore dividends. The dividends were reduced sharply after the Federal rescue of the financial system.

China raises banks' reserve ratio

China has ordered banks to set aside larger reserves for the fifth time this year, draining cash from the financial system to limit inflation and asset-bubble risks in the world's fastest growing major economy. Beginning from November 29, the ratio has increased by 50 bps to step up liquidity management and "approximately control" credit and loans.

No risk to Euro from debt crisis

The head of the EU's bailout fund Mr. Klaus Regling says that there are no chances that the debt crisis will cause the collapse of the 16-nation Euro currency, even if other countries like Portugal, Greece and Ireland ask for a bailout.

Economy

Signs of economic recovery in US

The US's real GDP grew 2% in Q3 vis-a-vis 1.7% in Q2 this year, on the back of a marginal increase in personal consumption expenditures and change in private inventories. The data may quell fears of a double-dip recession in the world's largest economy, which is slowly recovering after the worst economic downturn in decades.

Debt market sees action, courtesy base rate and FII inflows

The corporate credit market is booming like never before with FIIs pumping money into Indian debt and companies looking to raise more funds through overseas borrowings and commercial papers. The new base-rate regime for bank loans and the government's decision to raise FII limit in debt, have clearly changed the game. The new RBI guidelines permitting repurchase of corporate bonds could broaden the market further. Close to \$10 billion have flown into the Indian debt market in this calendar year alone.

Asia may need capital controls to curb bubble

Asian economies may need to turn to capital controls as quantitative easing by the US threatens to spur asset bubbles in the region's stock, currency and property markets, as stated by the World Bank. "Any curbs should be "targeted, temporary and tailored to address specific problems" opines Sri Mulyani Indrawati, Managing Director, World Bank. "This could include countries tying up funds for as long as a year to help limit hot money." The Federal Reserve has announced plans to buy \$600 billion of long-term government bonds in its second effort at so-called quantitative easing (QE2) aiming to stoke US economic growth. Policy makers from Asia to South America have warned that it could have the side-effect of depressing the dollar and sparking capital flight to emerging markets.

India poised for return to 9% growth

Finance Minister Mr. Pranab Mukherjee, has affirmed that the Indian economy is poised for return to the 9% growth path, despite recent signs of a slowdown

in the manufacturing sector. "The challenge now is to quickly revert to the high GDP growth path of 9%-plus and also find means to cross the 'double digit growth barrier' in a year or two. Our objective is to harness this growth to make the development process more inclusive, strengthen food security, improve education opportunities and health facilities in rural & urban areas to make growth more equitable. Parallely, we're also looking to address the weaknesses in our systems, structures and institutions at different levels of governance," says Mr. Mukherjee.

New Appointments

Shri. M. Narendra has taken over as the CMD of Indian Overseas Bank (IOB)

Shri. N. Seshadri has taken over as Executive Director, Bank of India. He was earlier General Manager, Canara Bank.

Shri. Amitabha Guha has joined South Indian Bank (SIB) as non-executive Chairman. He is the former MD of State Bank of Travancore and also State Bank of Hyderabad.

Shri Anil Ramachandran has joined IndusInd Bank as the Head Credit Cards business.

Shri Vikram Tandan has taken over as Head, Human Resources, HSBC.



Products & Alliances

Central Bank in pact with AMW

Central Bank of India and Asia Motor Works have signed a memorandum of understanding (MOU) wherein the bank will extend finance to AMW's vehicle customers.

South Indian Bank ties up with Visa to launch debit card

Entering into a strategic alliance with Visa, one of the world's largest retail payment networks, Kerala-based South Indian Bank has launched the 'SIB Visa international Debit-cum-shopping Card'.

VE Commercial in pact with PNB

VE Commercial Vehicles has signed an agreement with Punjab National Bank (PNB) to provide credit assistance for customers to buy its commercial vehicles.

Union Bank in pact with Nokia & Obopay

PSB Union Bank of India, together with Nokia and Obopay, has announced a partnership to launch mobile

financial services across the country. This partnership will make mobile payment services, called Union Bank Money, available to consumers across India shortly.

Yes Bank inks pact with Shinsel Bank

Yes Bank and Shinsel Bank of Japan have signed an agreement to advise companies on cross-border deals between the two nations. The alliance will play an active role towards further augmenting investment flows into the Indo-Japanese corridor.

Indian Bank, Weizmann Forex tie-up

Indian Bank has signed an agreement with Weizmann Forex Ltd. to offer foreign remittance service over the counter at all its branches. The agreement is for handling money transfer services through Western Union Money Transfer. Under the arrangement, personal remittance made by individuals from over 204 countries through Western Union Money Transfer will be paid instantly to the beneficiaries, at the branches of Indian Bank.

News From the Institute

Sir PTML was organised on 9th December 2010

The 27th Sir PTML lecture was delivered by Mr. Nandan Nilekani, Chairman, Unique Identification Authority of India on the topic "The Goal of Financial Inclusion -- Have We Reached The Tipping Point?" on 9th December 2010 at SBI auditorium in Mumbai. The lecture is available on the Institute's web site at www.iibf.org.in.

Heads of HR meet

Institute organised a meeting on 3rd December with General Managers (GMs) / Heads of HR to discuss the recent initiatives of IIBF.

CEOs presentation

CEO had made a presentation to the Managing Committee of IBA on 26/11/2010 on the recent activities of IIBF with much focus on CAIIB (2010) and Continuing Professional Development Programs.

Macro Research Proposal

8 researchers made presentation to the members of RAC on their research proposals and 4 researchers have been awarded the macro research project for the year 2010. (For details visit www.iibf.org.in)

Important Notice

All the life members of the Institute are hereby requested to kindly inform their change of address to Corporate / Zonal office of the Institute by e-mail in the format given on the web site in order to receive all the correspondence / material from IIBF in time.

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Bank for International Settlement (BIS)



The BIS undertakes many activities like research, production of statistics, conducting seminars and workshops and providing banking services for central banks. Even though the BIS is well known among Central Bankers, it still remains enigmatic among commercial banks. It influences the lives of commercial bankers through Central Banks. Many of the directives / guidelines of Central Banks on Risk Management and other macro prudential management are the direct offshoot of BIS advisories. Many of the commercial Banks are also participating in various periodical studies / surveys being conducted by BIS. Thus it is interesting to learn about this world's oldest international financial institution. We are planning a series of articles to bring out the role and relevance of BIS, which we believe, will be of interest to serious students of banking and practitioners and professionals in finance.

Here, we intend to demystify BIS from the next issue of 'Vision'. We invite your feedback on our new initiative.

Financial Basics

Hedging Transaction

A type of transaction that limits investment risk with the use of derivatives, such as options and futures contracts. Hedging transactions purchase opposite positions in the market in order to ensure a certain amount of gain or loss on a trade. They are employed by portfolio managers to reduce portfolio risk and volatility or lock in profits. Hedging transactions are subject to ordinary gain and

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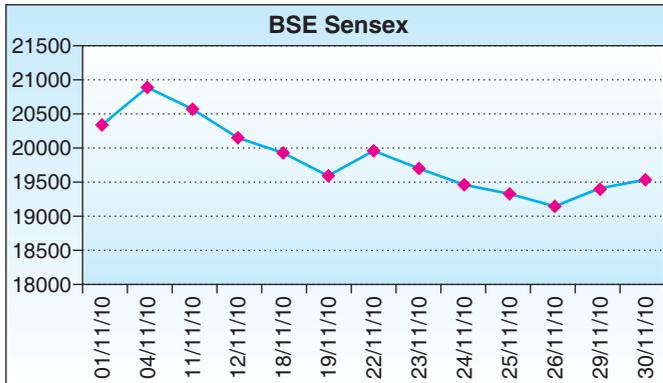
loss tax treatment. However, hedging losses of limited partners are usually limited to their taxable income for the year. Hedge funds use this sort of transaction extensively.

Glossary

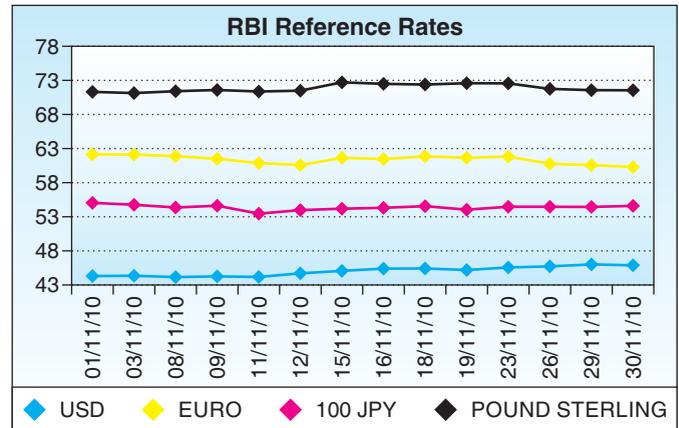
Liquidity Adjustment Facility

A tool used in monetary policy that allows banks to borrow money through repurchase agreements. This arrangement allows banks to respond to liquidity pressures and is used by governments to assure basic stability in the financial markets. Liquidity adjustment facilities are used to aid banks in resolving any short-term cash shortages during periods of economic instability or from any other form of stress caused by forces beyond their control. Various banks will use eligible securities as collateral through a repo agreement and will use the funds to alleviate their short-term requirements, thus remaining stable.

Market Roundup

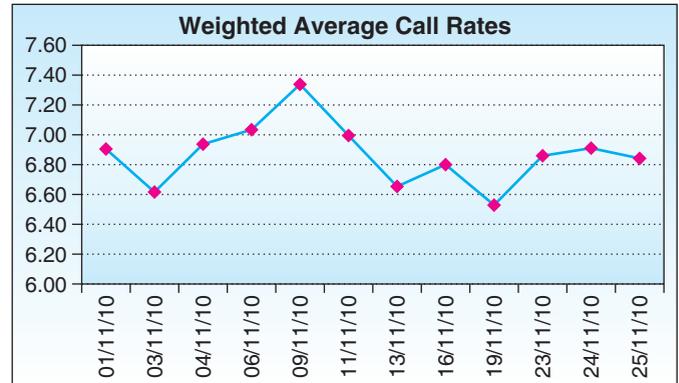


Source : Reserve Bank of India (RBI)



Source : Reserve Bank of India (RBI)

- Rupee sees gradual depreciation against \$.
- Rupee fell on stepped up purchases by importers.
- Euro remained erratic and depreciated against rupee.
- Sterling remained range bound.



Source : CCIL Newsletters, November 2010

- Call money market witnessed volatility.
- Call rates oscillated between 6.5 and 7.3.

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