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Banking Update

Regulatory Updates

Volume 21
September 2009

Banking
Developments

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Banking Issues

Synopsis of significant amendments based on certain the Reserve Bank of India's (RBI) Circulars/ Notifications issued during the month of September 2009 are as under:

Banking News

On the Watch

I. Know Your Customers (KYC) & Anti Money Laundering

II. Fraud – Classification and Reporting

III. Governance

I. KYC & Anti Money Laundering:

1. Combating financing of terrorism- Unlawful Activities (Prevention) Act, 1967- Obligation of banks

Issued to: The Chairman and Chief Executive Officers (All Scheduled Commercial Banks excluding RRBs)/Financial Institutions/ Local Area Banks

Dated: September 17, 2009

- Banks directed to ensure strict compliance of all Orders under section 51A of Unlawful Activities (Prevention) Act, relating to funds, financial assets or economic resources or related services.

2. Adherence to KYC/AML guidelines while opening and conduct of the accounts of Multi Level Marketing firms

Issued to: The Chief Executive Officers of All Primary (Urban) Co-operative Banks

Dated: September 16, 2009

- The RBI has alerted banks that in cases where accounts have already been opened in the names of the marketing agencies, retail traders and investment firms, the banks should undertake quick reviews.
- The RBI also named seven MLM companies, these firms and their agents had reportedly promised very high returns on deposits and lured common people to part with funds in the name of certain investment/deposit schemes.

3. Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002

Issued to: The Chairman and Chief Executive Officers, All Scheduled Commercial Banks excluding RRBs/Financial institutions/ Local Area Banks

Dated: September 11, 2009

- The RBI has asked banks to maintain records of all transactions with clients for a minimum of 10 years

from the date of transaction. This has been done to keep track of funds involved in illegal activities.

- The RBI has modified an earlier circular detailing 'Know Your Customer' guidelines, issued to banks on 1 July 2009, in bid to ensure that transactions are kept track of in compliance with the rules for preventing money laundering.

II. Fraud – Classification and Reporting:

4. Fraud Risk Management System in banks – Role of Chairmen / Chief Executive Officers

Issued to: The Chairman / Chief Executives of All Scheduled Commercial Banks (excluding RRBs)

Dated: September 16, 2009

Overview of the circular on Fraud Risk Management System in banks is as follows:

- **Chief Executive Officers (CEOs)** of the banks must provide singular focus on the “**Fraud Prevention and Management Function**”.
- **Dedicated Specialized unit** for fraud monitoring, investigation and follow up for large value frauds. Function to be discharged in a **Centralized** manner. Clarity required on the structure and roles and responsibilities of the unit.
- Frame **internal policy** for fraud risk management and fraud investigation function
- Personnel with expertise **and specialized skills**, competence in “**forensic audit**” to investigate large value frauds.
- Provide necessary training to staff in **forensic audit**.
- Build up a data/ information pool of large value frauds and analyse them periodically which may act as knowledge repository for policy responses.

5. Collection of Account Payee Cheques - Prohibition on Crediting Proceeds to Third Party Account

Issued to: All State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs)

Dated: September 07, 2009

- Banks are prohibited from crediting 'account payee' cheque to the account of any person other than the payee named therein.
- Some banks are collecting third party account payee cheques on behalf of co-operative credit societies who are their constituents. While reiterating that such practice of collection of third party cheques is not permissible, in order to facilitate collection of cheques from the payment system angle, account payee cheques deposited with the sub-member for credit to their customers' account can be collected by the member bank (referred to as the sponsor member) of the Clearing House. Under such arrangements, there should be a clear undertaking from the sub-member to the effect that the proceeds of the account payee cheque will be credited to the payee's account only, upon realisation.

III. Governance:

6. Prudential Norms on Income Recognition, Asset Classification, and Provisioning pertaining to Advances - Computation of NPA Levels

Issued to: The Chairman and Managing Directors / Chief Executive officers, All Scheduled Commercial Banks (including Local Area Banks)(Excluding RRBs)

Dated: September 24, 2009

- In order to have uniformity across banks in reporting of Advances and NPAs, so as to avoid any scope for different interpretations by the auditors/public, as also to improve the comparability of Advances position of banks. The RBI in consultation with Indian Banks' Association, has decided that:
- On an account turning NPA, banks should reverse the interest already charged and not collected by

debiting Profit and Loss account, and stop further application of interest. However, banks may continue to record such accrued interest in a Memorandum account in their books, as is the practice currently followed by some banks.

7. Exposure to Real Estate Sector- Assessment of Group Risk

Issued to: The Chairman / Chief Executive Officers, All Commercial Banks (excluding RRBs)

Dated: September 24, 2009

- RBI has directed the banks having exposure to Real Estate Sector to assess the financial credentials/viability of the borrowers on a consolidated basis supported by the consolidated accounts/position of the group.

8. Priority Sector Lending – Categorisation of activities under service under the MSMED Act, 2006

Issued to: The Chairman/ Managing Director/ Chief Executive Officer [All scheduled commercial banks (excluding Regional Rural Banks)]

Dated: September 18, 2009

- RBI has directed banks to categorise activities under services under the Micro Small and Medium Enterprises Development (MSMED) Act, 2006 as per Government of India, vide communication No. 5(6)/2/2009-MSME POL dated June 12, 2009.

9. Master Circular - Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

Issued to: All Scheduled Commercial Banks (excluding Regional Rural Banks)

Dated: September 18, 2009

- This master circular covers instructions regarding the computation of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
- CRR: In terms of Section 42 (1) of the Reserve Bank of India Act, 1934 the Reserve Bank having regard to the needs of securing the monetary stability in the country, prescribes the CRR for Scheduled Commercial Banks (SCBs) without any floor or ceiling rate. At present, effective from the fortnight beginning January 17, 2009 the CRR is prescribed at 5.00 per cent of a bank's total of demand and time liabilities adjusted for the exemptions.
- SLR: Reserve Bank has decided that all SCBs shall continue to maintain a uniform SLR of 24 per cent on their total net demand and time liabilities (NDTL) with effect from the fortnight beginning November 8, 2008, valued in accordance with the method of valuation specified by the Reserve Bank of India from time to time.

10. Rupee Export Credit Interest Rates

Issued to: Chief Executive Officer Scheduled Urban Co-operative Banks (holding AD Category I licences)

Dated: September 16, 2009

- It has been decided to extend the interest subvention of 2% on rupee export credit for a further period of six months i.e. from October 1, 2009 till March 31, 2010 to the same sectors and on the same terms and conditions as specified in circular UBD.PCB.Cir. No. 3/13.05.000/2008-09 dated June 18, 2009

11. Foreign Currency Account by diplomatic missions - Credit of Visa Fees

Issued to: All Category – I Authorised Dealer Banks

Dated: September 14, 2009

- RBI in consultation with the Government decided to permit diplomatic missions to credit the visa fees collected in India in rupees through normal banking channels hence, banks may allow the diplomatic missions to credit the visa fees collected in India in Indian rupees, by way of transfer from the rupee

account, to the account maintained in foreign currency by the diplomatic missions.

12. Guidelines on Classification of Exposures as Commercial Real Estate (CRE) Exposures

Issued to: All Commercial Banks (excluding RRBs)

Dated: September 09, 2009

- The RBI has issued revised guidelines on banks' exposure to commercial real estate to include that property where repayment of loans solely depends on the property itself and not on its expected profits.
- Where repayment primarily depends on other factors such as operating profit from business operations, quality of goods and services, tourist arrivals etc, the exposure would not be counted as Commercial Real Estate
- The exposure should also be reported to RBI under both the classifications with an appropriate footnote to avoid double counting. Banks could deal with any other instances of dual classification of exposures involving exposure to CRE, based on these principles.

13. Maintenance of SLR

Issued to: All Scheduled Commercial Banks (Excluding Regional Rural Banks)

Dated: September 08, 2009

- The Statutory Liquidity Ratio for scheduled commercial banks remains unchanged at 24 per cent as prescribed vide the notification DBOD. No. Ret. BC. 72/12.02.001/2008-09 dated November 3, 2008.
- With a view to disseminating information on the SLR status of a Government security, it has been decided that:
 - i. The SLR status of securities issued by the Government of India and the State Governments will be indicated in the Press Release issued by the Reserve Bank of India at the time of issuance of the securities; and
 - ii. an updated and current list of the SLR securities will be posted on the Reserve Bank's website (www.rbi.org.in) under the link "Database on Indian Economy".

14. Gold Card Scheme for Exporters

Issued to: All Scheduled Commercial Banks (Excluding RRBs)

Dated: September 07, 2009

- In view of the difficulties faced by exporters on account of weakening of external demand and in realizing the dues within the stipulated time, it has been decided to partially modify paragraph 3.1.3 of circular dated May 18, 2004 and dispense with the requirement of overdue export bills not exceeding 10% of the previous year's export turnover, for one year i.e. from April 1, 2009 to March 31, 2010.

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RBI: Onus of fraud probe, management on banks 17th September, 2009. Business Standard

The Reserve Bank of India (RBI) has directed that the fraud risk management and fraud investigation function of a bank must be owned by the bank's chief executive officer, its audit committee and the special committee of the bank's board for high-value frauds.

Outlining the role of chairmen and chief executive officers in the fraud risk management system, the RBI further stated that the audit committee and special committee of the board should also own responsibility

for systemic failure of controls or any absence of key controls or severe weaknesses in existing controls which facilitate exceptionally large-value frauds.

Towards this, the banks should set up dedicated and well-organised "special surveillance and investigation function", which would, on a continuous basis, exercise surveillance over potentially fraud-prone areas and investigate large-value frauds. This unit would also be responsible for mandatorily implementing the recommendations of the special committee of the bank's board, so that the monitoring and investigation of large-value frauds were recognised as a distinct function. These recommendations till date were optional.

To start with, banks have been advised to immediately set up "internal oversight framework," which can prevent wrongdoings and take punitive measures.

This has been done following the increasing incidents of banking frauds in recent years, both in terms of their numbers and the amount involved. It has been observed that the trend was more prevalent in the retail segment, especially in housing and mortgage loans, credit card dues, internet banking.

Banks, with the approval of their respective boards, may frame internal policy for fraud risk management and fraud investigation function, based on the above governance standard relating to the ownership of the function and accountability for malfunctioning of the fraud risk management process in their banks.

The function of the unit will have to be discharged in a centralised manner instead of leaving it to the regional offices of banks, where such specialisation may not be available. So the banks should own specialised fraud monitoring, investigation and follow-up function for large-value frauds or frauds which occur across the bank.

The banks should identify staff with proper aptitude and provide necessary training to them in forensic audit so that only such skilled personnel were deployed for investigation of large-value frauds.

The banks may build up a data/ information pool of large-value frauds and analyse them periodically, which may act as knowledge repository for policy responses.

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Current Rates

As on 30-09-2009 (Source : RBI Website)

Policy Rates		
Bank Rate	:	6.00%
Repo Rate	:	4.75 %
Reverse Repo Rate	:	3.25%

Reserve Ratios		
CRR	:	5.00%
SLR	:	24.00%

Exchange Rates		
RBI Reference Rate		
INR / 1 USD	:	48.04
INR / 1 Euro	:	70.24
INR / 100 Jap. YEN	:	53.35
INR / 1 Pound Sterling	:	76.43

PLR	:	12.75%-13.25%
Savings Bank Rate	:	3.50%
Deposit Rate	:	7.50%-9.60%

As on 31-08-2009 (Source : RBI Website)

Policy Rates		
Bank Rate	:	6.00%
Repo Rate	:	4.75 %
Reverse Repo Rate	:	3.25%

Reserve Ratios		
CRR	:	5.00%
SLR	:	24.00%

Exchange Rates		
RBI Reference Rate		

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INR / 1 USD	:	48.88	PLR	:	12.75%-13.25%
INR / 1 Euro	:	69.70	Savings Bank Rate	:	3.50%
INR / 100 Jap. YEN	:	52.70	Deposit Rate	:	7.50%-9.60%
INR / 1 Pound Sterling	:	79.21			

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Other RBI notifications for the month of September 2009

Sep 30, 2009

StCBs/DCCBs - KYC Norms/AML Standards/Combating of Financing of Terrorism/Obligation of Banks under PMLA, 2002

Sep 29, 2009

UCBs - KYC Guidelines - Accounts of Proprietary Concerns

StCBs/DCCBs - Forms of Business in which co-operative banks may engage in KYC Norms/AML Standards and Obligation of RRBS under PMLA, 2002

Sep 24, 2009

Prudential Norms on Income Recognition, Asset Classification, and Provisioning pertaining to Advances - Computation of NPA Levels

Exim Bank's Line of Credit of USD 30 million to the Government of the Republic of Mozambique

RRBs – Payment of Interest on Savings Bank Account on a Daily Product Basis

Exposure to Real Estate Sector- Assessment of Group Risk

Sep 18, 2009

Auction of Government of India Dated Securities

Auction for Sale (Re-issue) of '8.28 per cent Government Stock, 2032'

Auction for Sale (Re-issue) of '6.35 per cent Government Stock, 2020'

Auction for Sale (Re-issue) of '6.49 per cent Government Stock, 2015'

Combating financing of terrorism- Unlawful Activities (Prevention) Act, 1967- Obligation of banks

Introduction of Interest Rate Futures- NBFCs

Priority Sector Lending – Categorisation of activities under service under the MSMED Act, 2006

Master Circular - Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

Sep 17, 2009

RBI approval required for acquisition/transfer of control of NBFCs accepting deposits

StCBs/DCCBs - Display of information regarding Local Level Committees set up under the National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999

Sep 16, 2009

StCBs/DCCBs - Agricultural Debt Waiver and Debt Relief Scheme, 2009 - Prudential Norms

Fraud Risk Management System in banks – Role of Chairmen / Chief Executive Officers

Rupee Export Credit Interest Rates

Adherence to KYC/AML guidelines while opening and conduct of the accounts of Multi Level Marketing firms

Sep 14, 2009

Foreign Currency Account by diplomatic missions - Credit of Visa Fees

Finance for Housing Projects –Disclosure of Information on Mortgage of Property

Sep 11, 2009

Auction of Government of India Dated Securities

Auction for Sale (Re-issue) of '7.02 per cent Government Stock, 2016'

Auction for Sale (Re-issue) of '6.90 per cent Government Stock, 2019'

Auction for Sale (Re-issue) of '8.24 per cent Government Stock, 2027'

RRBs - Collection of Account Payee Cheques - Prohibition on Crediting Proceeds to Third Party Account

RRBS - Agricultural Debt Waiver and Debt Relief Scheme, 2008 - Prudential Norms

Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002

Sep 09, 2009

Guidelines on Classification of Exposures as Commercial Real Estate (CRE) Exposures

Sep 08, 2009

Maintenance of SLR

Sep 07, 2009

Gold Card Scheme for Exporters

Collection of Account Payee Cheques - Prohibition on Crediting Proceeds to Third Party Account

Issue of Subordinated Debt for Raising Tier II Capital

Sep 04, 2009

Auction of Government of India Dated Securities

Auction for Sale (Re-issue) of '6.35 per cent Government Stock, 2020'

Auction for Sale (Re-issue) of '7.40 per cent Government Stock, 2012'

Auction for Sale (Re-issue) of '8.28 per cent Government Stock, 2032'

RRBs - Cash Management Bills eligible as SLR Securities

Sep 03, 2009

UCBs – Last Date for OTS Scheme (under Agricultural Debt Waiver and Debt Relief Scheme, 2008) extended

Sep 02, 2009

Stand-alone Primary Dealers – Enhancement of Minimum Net Owned Funds

Stand-alone Primary Dealers - Increase in Call/Notice Money Borrowing Limit

Display of information regarding Local Level Committees set up under the National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999

Sep 01, 2009

Guidelines on Exchange Traded Interest Rate Derivatives

Payment of interest on Savings Bank Account on a Daily Product Basis – UCBs

Cash Management Bills eligible as SLR Securities

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Other Regulatory Updates [Extracts]

Report interest rate swap deals, RBI tells banks

4th September, 2009. Business Standard

Reserve Bank of India officials met several banks and asked them to report interest rate swap (IRS) transactions made with customers on the platform of the Clearing Corporation of India (CCIL). However, there was some confusion on whether the norms under International Swaps and Derivative Association (ISDA) allow banks to share client information with other entities, the banker said. Banks have to enter any derivative contract as per ISDA norms.

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Banks can now issue lower Tier-I bonds with step-up, call options
8th September, 2009. Business Standard

The Reserve Bank of India (RBI) said banks would be allowed to raise Tier-II capital by issuing sub-ordinate debts having call and step-up option. Currently, banks are permitted to raise lower Tier-II subordinated bonds without call and step-up options, while call option is permissible for raising upper-II bonds. Lower Tier-II bonds have a minimum five years of maturity and banks can exercise call option on lower Tier-II bonds after five years.

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KYC no bar for no-frills a/cs'
9th September, 2009. The Economic Times

The Reserve Bank of India has said banks cannot use know your-customer (KYC) norms as an excuse to turn away customers seeking to open no-frills accounts which did not require maintenance of minimum balance. Since many economically-disadvantaged customers find it difficult to furnish proof of residence, banks reject their applications citing KYC norms. Subject to certain conditions, KYC for a no-frills account-seeker can be waived off if a bank's existing customer, who meets KYC norms, agrees to act as an introducer and certifies the address and photo of the former.

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RBI finalises commercial real estate exposure norms for banks
10th September, 2009. Hindu Business Line

The Reserve Bank of India (RBI) has come out with detailed guidelines on classification of commercial real estate (CRE) exposure of banks. The guidelines come into effect with immediate effect. The guidelines were finalised after a careful consideration of suggestions on a draft note circulated by the apex bank sometime ago. The RBI, however, has clarified that the guidelines are based on a set of principles and examples outlined. Hence, it has argued that they need not necessarily be exhaustive. The RBI is of the view that the banks should be able to determine whether an exposure is CRE or not. While finalising the guidelines on classification of CRE exposure, the RBI has relied on the definition given by the Basel-II framework for income-producing real estate (IPRE).

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RBI issues guidelines on corporate debt as collateral
17th September, 2009. The Live Mint

The Reserve Bank of India (RBI) has released draft guidelines for borrowers to take loans from banks by pledging corporate debt securities as collateral, a move expected to boost secondary market trading in company bonds. RBI said that a margin of 25% or above would be applicable for availing the facility. If a company deposits a corporate bond worth Rs100, it will get not more than Rs75 as a loan. The amounts borrowed in repo (by selling of corporate debt securities) shall be reckoned as borrowings for computation of CRR (cash reserve ratio) and SLR (statutory liquidity ratio) by banks, RBI said in its draft guidelines. Only securities of listed companies with AA rating or above can be pledged as collateral. Short-term commercial paper, certificates of deposits and other instruments including non-convertible debentures of less than one year will be excluded.

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New shareholding norms for UCBs
18th September, 2009. Business Standard

The Reserve Bank of India (RBI) has requested all Registrars of Co-operative Societies (RCSs) to restrict individual shareholding in an urban co-operative bank (UCB) to 5 per cent of the total paid-up share capital. RBI suggested that the current norms prescribed by various statutes/ rules for individual shareholding in urban co-operative banks were varying and created aberrations in corporate governance, considering the co-operative principle of one member one vote. It has further requested the state governments not to register any new primary credit societies with a provision for acceptance of public deposits. This is because such co-operative societies automatically become eligible to act as co-operative banks under the Banking Regulation Act (BRA), when their paid-up share capital and reserves exceed Rs 1 lakh. RBI has also

suggested certain criteria for promoters

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Section II: Banking Developments

Credit Bureau to help lenders track vanishing customers **18th September, 2009. Hindu Business Line**

The Credit Information Bureau (India) Ltd (CIBIL) has launched 'Locate Plus', a product which can help lenders locate customers even if their contact details have changed. This product can help banks and financial institutions strengthen their relationship with their customers and also in risk management, as it improves efficiencies and processes for collection, said Mr Arun Thukral, Managing Director, CIBIL.

HOW IT WORKS

If a customer has changed his/her residence or telephone number but not informed the bank, CIBIL Locate Plus will scan all the addresses and telephone numbers of that particular customer that exist in CIBIL's repository. The final report will show the latest address and telephone numbers.

The tool locates the customer by his name, PAN card number or voter ID, or any other personal identification that will continue to remain the same. For instance, a bank can track down a customer who has disappeared through CIBIL's database that may list his another address and recover any payments that maybe overdue.

VALUE ADDITION

As a next step, CIBIL is looking to offer 'triggers', which will be a value addition to Locate Plus. Using this service, banks can keep a watch on select customers to see if there is any change in data. For instance, if the bank gives CIBIL a portfolio of about 100 people it wants tracked, CIBIL can proactively inform the bank about any change in the addresses or telephone numbers.

As of date CIBIL has 175 customers or members, 140 million individual records and 4 million business records. CIBIL has started offering personal reports directly to the consumer, but on a manual basis. It is in the process of setting up the infrastructure to offer the services online.

"As of now people who are asking for individual reports are those who have been refused a loan. By this year-end the service will be available online," Mr Thukral said. Some other products CIBIL is looking to launch in the next quarter include CIBIL Check- mortgages repository and CIBIL Detect for fraud management.

Another product that is still on the drawing board is one by which banks can benchmark performance against the industry, according to the segment, portfolio or region, Mr Thukral said.

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Other Banking Developments [Extracts]

Now, check your credit worthiness for Rs 142 **18th September, 2009. Business Standard**

Now a customer can check why his/her credit record worked against him/her and seek recourse by obtaining a copy of your credit report. All they need to do is fill up an application form available at Credit Information Bureau (India) or CIBIL'S website, attach a draft for Rs 142 and an identity proof and mail it to CIBIL. In the past, several individuals have complained that their credit records were not updated affecting their overall score. On its part, CIBIL blamed banks for not updating the records, but customers could do little to find out how the problem arose.

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Post offices to enter core banking system by March 2010
21st September, 2009. Business Standard

Post offices would no more limit its banking system to old and traditional technology and would adopt Core Banking System, on the pattern of other commercial banks by the end of current financial year. All branches of post office banks will be connected through national computer server for which data scanning and signatures entry was nearing completion. In a core banking system, software applications record transaction, maintain customers' accounts. The same software can be installed in various branches of a bank and can be interconnected through the internet or telephone lines to form a core banking network of the bank.

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Check change in floating rates online
23rd September, 2009. The Economic Times

Bank customers can look forward to a flourish of consumer-friendly initiatives. One, if you have borrowed against a floating rate of interest, you can now view any change in reference rate to which your interest rate is pegged on the bank's website. Your bank's website will also have to mention changes to the reference rate as and when they take place. Two, beginning October 2009, you will be able to access free credit counselling at a centre set up by the Banking Code and Standards Board of India (BCSBI), the independent and autonomous watchdog for rules that most banks in India follow.

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Even stopping a cheque payment is illegal, says HC
23rd September, 2009. The Times of India

Bombay high court has ruled that asking your bank to stop payment on a cheque also attracts criminal action under stringent provisions of Negotiable Instruments Act (NIA), which are otherwise invoked in instances where a cheque bounces due to insufficiency of funds. The court also observed that if one was not allowed to take action against people who first issue a cheque and then give a stop payment order to the bank, it would "provide a handle" to those trying to avoid payment.

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Banks, firms worth Rs 1 cr can file e-returns for clients
24th September, 2009. Business Standard

Companies with a net worth of over Rs 1 crore, including banks, can now qualify as an e-return intermediary and submit electronic income tax returns on behalf of tax assessee. At present, public sector companies, a firm of chartered accountants or company secretaries or advocates that has been allotted a permanent account number (PAN), individual CAs and advocates with PAN, among others, are authorised as e-return intermediaries.

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No need for PIN, just fingerprint will do
29th September, 2009. Hindu Business Line

An ATM dispenser in a remote village that helps users withdraw money from their savings account with a voice guidance in the local language could be reality soon as Integra Microsystems, a Bangalore-based software development company, has designed and developed the cash dispenser. Some of the other features include voice guidance, fingerprint sensor with live fingerprint detection system, contact-less and contact-based smart card, magnetic swipe card, in-built GPRS and CDMA-based communication for online and offline data uploads, in-built global positioning system (GPS) to capture co-ordinates, impact printer and full keyboard.

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Section III: Banking Issues

Banks to underwrite entire syndicated loan for corporates 8th September, 2009. Hindu Business Line

In a bid to push big ticket loans to India Inc, banks are now willing to underwrite the entire syndicated loan for corporates. This move is significant as it comes at a time when the credit off-take scenario is dismal.

Hitherto, the lead bank(s) of a corporate used to offer plain vanilla loan syndication facility. Under the arrangement, there was no guarantee that the bank(s) would be successful in tying up the funds that a corporate was seeking to raise for setting up a greenfield project or undertake a brownfield expansion.

Banks not averse

However, in the present context, whereby, banks are awash with funds (for the last few months banks collectively have been parking surplus funds in excess of Rs 1 lakh crore daily at the reverse repo window of the Reserve Bank of India), they are not averse to underwriting a loan syndication facility for a corporate with sound project implementation track record. When the loan requirement of a corporate is large, then its lead bank(s) undertakes to syndicate the loan. The lead bank(s) on their part take a large credit exposure to the corporate even as they maintain a prudent and manageable credit exposure by roping in other banks which take a portion of the loan on their books.

Recently, the National Aviation Company of India Ltd, the company which operates Air India, raised Rs 5,500 crore for purchasing aircraft through a syndicated 10-year term loan facility which was underwritten by its lead banks — State Bank of India and IDBI Bank. These two banks in turn roped in Punjab National Bank, Canara Bank, Union Bank of India, and a few other banks to participate in the loan syndication facility.

Assurance for funds

Corporates are now inclined to go in for syndicated loans underwritten by banks as they have an assurance that they will get funds. Should a corporate's lead bank fail in roping in other banks to participate in loan syndication, the lead bank pitches in with the funds," Mr B.K. Batra, Executive Director, IDBI Bank.

In the case of plain vanilla loan syndication, a bank earns a fee ranging between 25 and 50 basis points (of the loan amount), depending on the size of the loan. However, in the case of loan syndication which is underwritten, a bank stands to earn anywhere between 50 basis points and 100 basis points.

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Banks can't change schemes unilaterally, says consumer panel 28th September, 2009. The Economic Times

In a ruling that would bring cheers to thousands of customers, the National Consumer Commission has ruled that banks cannot unilaterally change its schemes as it might amount to "deficiency of service."

Conversion of the account from one scheme to another should be done after taking the consent of the account holders, the Commission headed by Justice Ashok Bhan said.

The Commission passed the order on two revision petitions filed by United Indian Insurance Company Limited and the Andhra Bank, challenging directions passed by Andhra Pradesh State Consumer Commission asking the company to pay Rs 2.5 lakh to the claimant and recover the same from the bank.

The claimant, Potluri Ramchandra Rao, availed "Abhaya Platinum Savings Scheme" from the bank in 1998 in which he was covered under accident insurance cover policy of Rs five lakh.

The policy was unilaterally changed to "Abhaya Gold Savings Bank Scheme" by the bank in which the accident cover was reduced to Rs one lakh.

Rao met with an accident on December 21, 2000 and thereafter registered his claim with the bank which rejected it on the ground that he was not covered under either of the policies as both were not in force at the time of the accident.

Andhra Bank was certainly deficient in service in converting the account from one scheme to another unilaterally and exposing the account holder to remain without insurance cover in the "interregnum" period, the Commission held.

The Commission directed the bank to pay Rs 2.5 lakh to the insurance company which already paid the same to the account holder in pursuance to the directions given by the apex consumer body in 2005.

"A step which is prejudicial to the interest of the other party cannot be taken by the bank without the consent of the account holders," the Commission said, adding because of the unilateral action of the bank, accidental insurance cover was reduced to the disadvantage of the account holder.

It was the duty of the bank to inform the account holders that it proposes to convert one scheme into another and it should have been left open to them either to continue with the existing scheme or close their accounts, the Commission said.

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Banks opting to sell products over phone, beware of mis-selling 30th September, 2009. The Economic Times

The other day a credit cardholder was called by his bank to spell out an attractive offer. The proposal was simple but irresistible: for a small one-time payment, the bank would not hold him liable for any purchases made on his card after it was lost or stolen.

Drawn by the low fee, he opted for the scheme. Few days later the card documents were mailed to him. That was when he realised what he had gone in for. He discovered that the protection offered was only for a year. He also found out that if the card was misused before it was reported lost, the insurance cover was less than what was promised. Luckily he had the presence of mind to cancel the policy .

But not all consumers of financial services are as alert. With mobile penetration on the rise, most bank customers are targets for phone sales where mis-selling is rampant. A major development in recent times is the move by banks to conclude the sale over phone.

The positive side of this is that it allows distribution of low-cost schemes where revenues do not justify sending a salesperson across or the mailing of brochures. The flip side is that sales through the phone is highly susceptible to mis selling. In life insurance, a panel constituted by the regulator has ruled clearly against the proposal to conclude sales online. In most other products there is not much regulatory clarity.

Queries regarding purchasing financial products on phone could not fetch response from entities such as HSBC Bank, Standard Chartered Bank, and ICICI Lombard General Insurance whose products were being offered over the phone. In the absence of any clear regulatory protection , it is up to the consumer to protect themselves. Turning down all offers is an option , but it also deprives access to low-cost products. The best alternative is to follow some ground rules.

Firstly, there is no pressure to take an instant decision when the salesperson calls. The typical spiel is that "you won't get any other opportunity to buy this product" If the product is complex, take down the details and ask the caller to call you back after some time. If the caller is not willing to do that, don't hesitate to forego the 'opportunity'.

If you do agree to buy, you will get a confirmation call from the salesman. Ask the person calling for confirmation to speak slowly. If there is a difference between what was promised to you and what is being read out to you, object it in clear words.

The other forms of mis-selling is where the salesperson gives false ground to the buyer to induce a purchases. One cardholder got a call where a bank tried to sell a credit protection plan stating that a credit protection cover has been made mandatory by the regulator.

If ever there is such a regulatory requirement (as in the case of second level verification for online transaction in cards), banks send mailers to their customers when there are such regulatory updates. Until some years ago banks were offering free accident cover which was subsequently withdrawn. Post-withdrawal of the free cover salespersons called up cardholders asking them if they wanted their earlier cover reinstated without mentioning that it has now become a paid cover.

The other area to watch out for are benefits and exclusions in a product. Given that insurance companies offered a standard mediclaim cover until a few years ago, most people think that all health covers are the same. This mindset makes it possible for companies to mis sell 'cheap' health covers with limited benefits.

For the diligent consumer the focus has to be on the impact on his own bottom-line . Very often banks offer a facility for repaying credit card dues at easy instalments. What is not highlighted is the interest rate and the cost implication of pre-payment . These condition come back to hurt when borrowers discover that they will have to continue paying very high interest on the loan even when they are in a position to repay.

Finally if despite precautions the consumer still feels that he has been taken for a ride, he can take legal recourse. According to Advocate Abhishek Khare, Khare Legal Chambers customers can seek redressal from the consumer court if he is not happy with any aspect of the product sold to them. Even in cases where there are no documents and sales are concluded over the phone, the bank maintains records of the conversations that take place through its call centres. However, in India telephonic recording is not yet a strong evidence admissible in the court of Law.

This makes it imperative for consumers to be agile when they transact on phone. "It makes sense to ask questions and seek details of the person who is calling you. Insist on full name of the person, location from which he is calling and note down the time and date of conversation along with the phone number from which you got the call. This may be of help, if you happen to seek legal recourse," says Khare.

Consumers also need to check whether they have any need for the service offered. At times opting for features that have no real use force customers to live with many restrictions . Take for instance a recent offer from a private bank to convert savings accounts of select customers into a 'premium bank account' . The lure of the premium account is unlimited cash transactions coupled with free demand drafts and free collection of multi city cheques. These facilities may not be useful for a junior level salaried individual. But if he upgrades to the premium account the 'quarterly average balance' requirement goes up by almost 150%.

Typically an online sale is followed by the service providers mailing the document within a week is an important document. "In any insurance product you can return the policy during the free look period if you have bought something that really does not address your needs," says Harsh Roongta, CEO, Apna Paisa. The ultimate solution for consumers is to be vocal about their protests and complain whenever they become a victim of mis selling. These complaints will facilitate the evolution of regulations for this new distribution channel.

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Other Banking Issues [Extracts]

Govt, RBI may clip wings of state-owned bank advisors 3rd September, 2009. Business Standard

The government and the Reserve Bank of India (RBI) seem to be taking a tough stand on the appointment of retired advisors at state-owned banks. At least in two instances in the recent past, both intervened on the way advisors were appointed and the role defined for them. The first was in the case of the country's largest lender, State Bank of India (SBI), when the apex bank barred advisors to attend the bank's board meetings. More recently, the government communicated to IDBI Bank that the proposal to appointment an advisor was not in line with the guidelines on their appointment.

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RBI panel mulls multiple PLR system; exemption of home loans 3rd September, 2009. Business Standard

A Reserve Bank of India (RBI) working group set up to rework the benchmark prime lending rate (PLR) structure is mulling multiple benchmark system for different borrowers and exemption for home loans from PLR. Benchmark Prime Lending Rates (BPLR) committee is considering multiple PLRs for corporates, SMEs and retail borrowers and is likely to meet by mid-September 2009 to finalise the recommendations on the PLR structure. Besides, the panel is also discussing options to differentiate loans below Rs 2 lakh to protect the interests of small borrowers.

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Expand mobile banking to poor: PMO tells DoT 8th September, 2009. The Economic Times

The Prime Minister's Office (PMO) has asked the department of telecommunications (DoT) to find ways to expand mobile banking services to take financial services to the remotest corners of the country. A pilot project to take financial services to the poorest of the rural poor through mobile banking is likely to be launched in 2012 to cover select villages, government officials said. The move is part of the financial inclusion initiative of the UPA for the up-liftment of the poor. The UPA government is keen to ensure that

the poor with mobile phone connections can carry out a financial transaction through it, including receipt of wages and payments, even if they do not have a bank account. The DoT has been asked to set up a committee that will study the authentication requirement necessary for expanding mobile banking services rapidly. The panel will also work on application of know-your-customer (KYC) norms to mobile banking customers in far-flung areas.

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**RBI to strengthen financial regulation
9th September, 2009. Hindu Business Line**

In a bid to further strengthen financial regulation and supervision, the Reserve Bank of India is considering a host of measures, including issuing a discussion paper on prudential issues to sensitise banks to the risks inherent in their floating and managing pools of capital, and enhancing the regulatory and supervisory framework for financial conglomerates. On banks floating and managing private pools of capital, the RBI Deputy Governor, Ms Usha Thorat, said the central bank's discussion paper would limit such exposures commensurate with their risk management and available capital. The RBI is also proposing to issue additional guidance on securitisation focusing on a minimum lock-in period and minimum retention criteria for securitising the loans originated and purchased by banks.

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**High capital base needed for banks with PE arm: RBI
9th September, 2009. Business Standard**

Soon banks such as ICICI Bank, Axis Bank and State Bank of India with a private equity (PE) arms may have to keep enhanced capital base to mitigate risks arising from such exposures. It meant banks would have to maintain additional capital if they were sponsoring and floating private equity funds. RBI would shortly be issuing a draft discussion paper on prudential issues on banks' floating and managing a private pool of capital. The private equity business of banks involve reputational risk as people putting money (into private fund) look at credentials of those banks. The purpose of the exercise was to sensitise banks about risks inherent in such activities (PE business) and limit such exposures commensurate with their risk management and available capital, RBI Deputy Governor Usha Thorat said.

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**Co-op sector apprehensive over move to curb primary banks' cheque facility
16th September, 2009. Hindu Business Line**

The cooperative sector in the State is up in arms against a purported move by the RBI to restrict commercial banks from collecting third party cheques on behalf of constituent cooperative credit societies or primary cooperative banks. This would effectively mean that commercial banks would now be allowed to accept cheques presented by the 1,603 PCBs in the State only if they are routed through district cooperative banks who are members of the Clearing House. The Clearing House accepts instruments from only those establishments falling within the purview of the Negotiable Instruments Act. PCBs do not fall under this category, although they are allowed to offer cheque facility to clients. PCBs have been using their own accounts with commercial banks to acquire multi-city cheque books, which are treated as local cheques, irrespective of the city where they are deposited.

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**RBI may hike HTM cap on bonds for banks
17th September, 2009. Hindu Business Line**

The Reserve Bank of India may look at increasing the limit of the Held-to-Maturity portfolio of government bonds for banks, if it will help in the completion of the government borrowing programme, said Dr K.C. Chakrabarty, Deputy Governor, Reserve Bank of India. The department concerned was examining it, he added. About increasing the HTM cap, Dr Chakrabarty said, "Globally HTM is not regulated. It is up to each player to decide. Here, we regulate it due a variety of reasons." He also said that the HTM provision did not change the financial strength of the bank's balance-sheet, as it was only an accounting issue.

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**Credit may grow 20%: Bankers
19th September, 2009. Business Standard**

Banking biggies also tell RBI that the economy is likely to grow 6.5 per cent. With recovery in select

industrial sectors and improvement in rainfall, banks expect credit off-take to grow 20 per cent and the economy to rise 6.5 per cent in the current financial year. They also expect the gross domestic product (GDP) to increase 6.0-6.5 per cent. Since the rate of credit growth has been steadily slipping since the beginning of 2009-10, the feedback (on 20 per cent growth) indicates that bankers expect a sharp revival in the second half of the financial year.

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'Credit flows to medium, small units declining'
21st September, 2009. Business Standard

The recently-constituted high-level task force to address the issues of micro, small and medium enterprises will focus on the critical issue of credit flows to the small units. Banks have become too choosy to the point of almost ignoring the small enterprises, notwithstanding the phenomenal growth of gross bank credit in the recent years. The task force has the Principal Secretary to the Prime Minister as the Chairman and includes a Member of Planning Commission (Mr Arun Maira), the Secretaries of Finance, Labour and Medium, Small and Micro Enterprises (MSME), the Deputy Governor of the Reserve Bank of India and the Chairman and Managing Director, Small Industries Development Bank of India, apart from four industry representatives.

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Exempt bank M&As from Competition Act: RBI
21st September, 2009. Business Standard

The Reserve Bank of India (RBI) has sought exemption for bank mergers and acquisition (M&As) from the Competition Act of 2002. In a note sent to the Ministry of Finance, the RBI has stated that the exemption should be granted following the urgency and unique nature of bank mergers, especially forced mergers. Since the RBI is well-versed in the functioning of the banks, it has the due expertise and is better placed to be the final authority to decide bank M&As, the note said. Sources close to the development said control by the Competition Act on the crucial issue of bank mergers goes against the spirit of the regulatory powers given to RBI under the Constitution.

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RBI to Increase Cost of Funds for Commercial Real Estate
28th September, 2009. Indian Realty News

The Reserve Bank of India (RBI) may step up its efforts to pre-empt another bubble in the local property market by increasing the cost of funds for the commercial real estate sector by up to 200 basis points. "We are looking at a hike in the risk weight to the commercial real estate (CRE) segment to 125% as a measure to ward off another bubble in the real estate segment and to ensure high credit quality," said an RBI official who asked not to be named. Currently, interest rate on most of the loans is between 7.5% and 12.5%, depending on the credit rating of the borrowing company. The current move will make loans to this segment costlier by 75-200 basis points. The measure could affect the financial health of some of the largest real estate firms of the country, which were forced to sell land banks and projects to meet their cash requirements.

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FM wants PSBs to take the M&A route
30th September, 2009. The Economic Times

The finance ministry reiterated the need for government-run banks to look for mergers and acquisitions in the next 5-10 years to achieve optimum economies of scale. According to finance secretary Ashok Chawla, merger is important so that banks can achieve balance sheet and asset size, which corresponds to the need of the country. To support the growth of the economy at 9-10%, size of banks is very important. The country's largest public sector bank State Bank of India currently ranks 64th among global banks, while China has four banks, among the world's top 20 banks.

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Section IV: Banking News

Banks shy away from revealing big defaulters' names **21st September, 2009. The Economic Times**

Although a Union finance minister had once described the rising non-performing assets (NPA) of nationalised banks as a loot, public sector banks are unwilling to divulge the names of those who have defaulted on huge loans. None of the 25 public sector banks who were asked to name big defaulters under the Right to Information Act (RTI), did so. Sixteen of these banks merely gave figures of the outstandings, while nine refused to even reply. According to information provided under RTI, the banks have written off over Rs 15,000 crore in the period 2003-2008. The banks reasoned that furnishing the names is not in public interest and is an invasion into the privacy of borrowers.

The RTI application was filed by Borivili resident Richie Shoaib Sequeira on the directions of the Bombay high court. 17th September 2009, chief justice Swatanter Kumar and Ajay Khanwilkar, while hearing his PIL, directed that notices be issued to Union of India, RBI and other banks. The court also directed Sequeira to make the state crime investigation department a party to the PIL. The matter will come up for hearing on 15th October 2009.

At the last hearing, the HC asked Sequeira to invoke RTI or any other law to gather details from the banks. Sequeira had filed a PIL, saying there has been no strict vigil by the finance ministry and RBI while writing off loans by the banks and the Debts Recovery Tribunal (DRT) had failed to recover the debts. The RBI, finance ministry, law ministry and DRT have said that in their replies they have no records of the write-offs and one-time settlements between the borrowers and banks.

The PIL also said that no rules have been framed by the finance ministry while writing off loans by the banks, which smacks of corruption. Some of the banks in their replies have said that the write-off is done in accordance with the guidelines framed by the board of directors. During a debate in Lok Sabha in 2002, then finance minister Jaswant Singh had described the NPA menace as a loot.

The banks, which refused to disclose details about the defaulters include, SBI, its associates, Union Bank, Bank of Baroda, Central Bank of India, Dena Bank, Andhra Bank, Oriental Bank of Commerce, Syndicate Bank and Indian Overseas Bank. Banks like Corporation Bank, UCO Bank, BoI and Allahabad Bank refused to reply to the RTI questions.

The banks mostly approach the DRT, attach assets under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act or go in for a onetime settlement to recover whatever dues they can. The DRT, set up for expeditious adjudication and recovery of debts owed to banks and financial institutions, recovered just 32% of the total outstanding amount in the period 2001-07.

In the case of State Bank of Travancore, in 2003-2008, of the Rs 10,162 crore claimed by the bank, it has recovered only 15%. Another 50% of the claims is yet to be decided. In the onetime settlement, the bank has forgone another Rs 800 crore.

Dena Bank has managed to recover only Rs 725 crore of the Rs 151,85 crore for the period 2003-2008. The bank has foregone another Rs 950 crore as part of one-time settlement in the period 2006-2008. In the case of Oriental Bank of Commerce, the bank has foregone Rs 1353.5 crore in the last four years. Union Bank of India has recovered only Rs 3,261.5 crore of the Rs 7,623 crore in 2006-08.

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RBI against foreign banks setting up additional branches **22nd September, 2009. The Economic Times**

A Reserve Bank of India (RBI) discussion paper on relaxation of branch licensing norms will be silent on giving further space to foreign banks, signalling the central bank's opposition to more foreign bank branches in the country, two senior RBI officials told ET.

The RBI paper, scheduled for release next week, is in direct contrast to the finance ministry's views on the issue. "The finance ministry was in favour of further relaxing the branch licensing norms for foreign banks in India. The ministry's opinion was that foreign banks should be given further freedom to spruce up operations and reciprocity (an RBI condition) need not necessarily be the benchmark while allowing banks to open more branches," said one RBI official, who did not wish to be named.

One of the many conditions that the RBI considers when a company incorporated outside India applies for a banking licence is whether the government or law of the country in which that company is incorporated discriminates in anyway against banking companies registered in India.

According to the finance ministry, if the foreign bank that applies for opening more branches in India complies with the provisions in the Banking Regulation Act, and if the continuation of its banking business in the country is in line with public interest, it should be allowed to expand operations.

Currently, there are 30 foreign banks operating in India through 300-odd branches.

Several private sector banks including ICICI have already complained that foreign countries are becoming more protectionist in the financial services sector. But the central bank's policy towards foreign banks is rather accommodative compared to many other countries, another RBI official pointed out.

India issues a single class of banking licence to foreign banks and do not require them to move from a lower to a higher category of banking licence over a period as is the practice followed in several foreign countries.

"We do not place any undue restriction on the foreign banks operating in the country. But the demand from Indian banks is that as foreign regulators are protecting their domestic banks, regulators in India must support their own banks," the second central bank official told ET.

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Other Banking News [Extracts]

PSU banks expect pick up in credit offtake post-Sept 1st September, 2009. Business Standard

Loan disbursements, which dipped due to economic slowdown, during the nine months ending May 2009, is expected to pick up post-September 2009 with an improvement in industrial activities, a top banking industry official said. The loan availment (during October 2008-May 2009) was not as per the expectations," Indian Banks' Association's Chairman M V Nair said. Though loan sanctions of state-run banks have grown by 50 per cent during the mentioned period, there was very little off-take of loans due to slowdown in the economy, Nair told.

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Banks lend Rs 782cr to MSMEs in first four months 1st September, 2009. Business Standard

The banks in Orissa provided Rs 782.32 crore loan to the micro, small and medium enterprises (MSMEs) during the first four months of the current fiscal. This includes Rs 600.43 crore working capital loan to the new units and Rs 181.89 crore loan to the existing MSME units. Working capital loans amounting to Rs 285.94 crore were sanctioned in July this year, official sources said. Similarly, the banks sanctioned Rs 314.23 crore automobile loans during April 2009 - July 2009 including Rs 92.78 crore in July this year. They also provided Rs 284.72 crore housing loans to 5878 persons during this period.

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Chhattisgarh plans banking complexes 2nd September, 2009. Business Standard

Chhattisgarh government is mooting a proposal to bring the services of the nationalised banks under one roof by developing a banking complex in the district headquarters and big cities across the state. The Chhattisgarh chief minister said it had become inevitable in the interest of the banking customers to bring all the banks under one roof. This would help small customers to get better service. Sources said that the district administration had identified about eight acres of land in Rajnandgaon city for building the complex. About half a dozen banks had given consent to shift the office in the banking complex.

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Banks bet on surge in power projects to boost loans
3rd September, 2009. The Economic Times

Indian banks are taking larger bets on the burgeoning power sector to lift their sagging loan books at a time when demand for loans from companies is still relatively low, bankers and analysts said. Banks like IDBI Bank are now key lenders to projects such as Reliance Power's 1200 MW Rosa project, while Bank of India's 108 billion rupee infrastructure loan portfolio includes major portion of power sector exposure. Banks facing a lower annual loan growth of 15-16 percent, compared to 27 percent as on December 2008, are looking at growth opportunities in the infrastructure space, with up to 5 percent of the loan book going towards power, analysts said.

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DICGC settles claims worth Rs 195 cr from co-op banks
3rd September, 2009. Hindu Business Line

The Deposit Insurance and Credit Guarantee Corporation (DICGC) has settled depositor claims aggregating Rs 195 crore from 28 liquidated co-operative banks, mainly from Karnataka and Maharashtra, in FY 2009. This is against Rs 155 crore from 22 co-operative banks in FY 2008. The Corporation's settlement figures highlight the fact that the number of co-operative banks whose licence has been cancelled by the banking regulator is steadily increasing. The regulator, in recent times, has come down heavily on some of these banks for mismanagement of operations, connected lending, failure to meet prudential norms and so on.

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Banks park a record Rs 1 lakh cr with MFs
3rd September, 2009. The Economic Times

With sluggish demand for credit, banks have invested a record Rs 1 lakh crore in mutual funds during the first quarter of 2008-09, which is nearly three times what they have extended as loans during the quarter. Banks have continued to invest in mutual funds although RBI guidelines prescribe higher capital requirement for such investments compared to investments in government bonds. One reason for this could be that banks are choosing to remain liquid in anticipation of a hardening in interest rates which could push down the value of their government securities portfolio. According to latest RBI figures, incremental investment by banks in various mutual fund schemes rose Rs 102,838 crore between April 2009 and July 2009, taking their outstanding exposure to Rs 1,39,619 crore as on 31st July 2009.

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Punjab banks to set up training centres
4th September, 2009. Business Standard

Public sector banks in Punjab are gearing up to set up Rural Self Employment Training Institute (RSETI) under the guidelines of the Union Ministry of Rural Development. Three centres, one each by Punjab National Bank (district Mohali), Punjab and Sind Bank (district Ludhiana) and Oriental Bank of Commerce (district Ferozpur), have already been opened. The state has 20 districts and the lead bank in each district would open the RSETI to train those in the age group of 18-35 from below poverty line (BPL) and other weaker sections. The state government has to provide land for each centre and the Centre would provide Rs 1 crore for the superstructure of each centre.

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Banks insist on corporate guarantees for core project loans
4th September, 2009. Hindu Business Line

Public sector banks are insisting on corporate guarantees as a precondition to extending loans to infrastructure projects. This year, the bulk of non-food credit growth has taken place in the infrastructure sector, including energy, highways and port projects. Till mid-May 2009, according to the Reserve Bank of India data available, outstanding credit to the infrastructure sector was Rs 1.75 lakh crore, or a 35 per cent increase over the corresponding period of the previous year. It was the public sector undertakings that cornered the bulk of the loans. Only a small quantum of the lending was to the private corporate sector. These loans to private corporate sector were secured by assignment of revenues, physical asset cover of up to 150 per cent of the loan value and corporate guarantees from the promoters.

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Govt seeks nod from candidates for bank ED posts
4th September, 2009. Business Standard

The government has started the process of appointing executive directors (EDs) at public sector banks by seeking consent from prospective candidates. The finance ministry seeks the consent of candidates before announcing their appointment. After getting a candidate's consent for a bank, the ministry seeks clearance from different agencies such as Department of Personnel and Training, Vigilance Commission, etc, before sending the name to the Prime Minister's Office for final approval.

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Co-operative banking sector clocks double digit growth
4th September, 2009. Business Standard

The co-operative banking scenario in the country stands improved as the sector has clocked a double digit growth 13 per cent in its deposits, a top official said. The deposits of co-operative banks in the country stood at 1.17 lakh crore up to March 2007, and reached Rs 1.38 lakh crores up to March 2008, a hike of 12-13 per cent. Also, the working of co-operative banks in the country is satisfactory now. The 1,770 odd co-operative banks in India deploy total working capital (deposits and share capital plus reserves) of Rs 1.50 lakh crores in service.

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Postal dept, 5-6 more banks to distribute New Pension System
6th September, 2009. The Economic Times

To distribute the nascent New Pension System on a larger scale, interim pension regulator PFRDA is likely to rope in the postal department and five to six more banks, including PNB and Standard Chartered Bank for collecting contributions of subscribers. In a month or so, the names of 5-6 banks, including Punjab National Bank, Vijaya Bank, Syndicate bank, Standard Chartered Bank and the postal department are likely to be notified as Points of Presence. The official further said the postal department has shown interest in joining the NPS as a PoP and the PFRDA is having discussions with them. The request from these banks has also come. PoPs are contact and collection points for customers wanting to be part of NPS.

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Credit card cos revisit their revenue model
6th September, 2009. The Economic Times

Credit card companies are revisiting their revenue models to sustain usage of cards and attract new clients. What could be in the offing is a lower or differential interest rate on credit cards. To make up for revenue loss on this front, companies may be levying a variety of fees, including an annual fee, annual or monthly maintenance cost, charges for direct services provided such as cheque representation charges and cash collection fees.

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RBI files complaint against banks for depositing fake notes
6th September, 2009. The Economic Times

The Reserve Bank of India lodged police complaint against the branch manager and the staff of a nationalised bank here for allegedly accepting and then depositing fake Indian currency in its bank. Manager of Reserve Bank of India (Kanpur head office) V P Singh, alleged in his complaint that the branch of Punjab National Bank (PNB) at Shamli town had deposited fake notes in RBI, police said. Singh said RBI has so far lodged complaints against branch managers of eight banks in Muzaffarnagar and Meerut in this regard. These banks are: Punjab National Bank, State Bank of Bikaner, Bank of India, Indian Bank, Syndicate Bank, State Bank of India, Punjab and Sind Bank and Union Bank of India.

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Banks' incremental investments zoom on sluggish credit off-take
7th September, 2009. Hindu Business Line

Sluggish credit offtake is forcing banks to bulk up their investment portfolio. In the financial year so far, incremental investments made by banks (aggregating Rs 1.79 lakh crore) is over seven times the incremental investments made (Rs 24,781 crore) by them in the corresponding period last year. The dismal

credit disbursement scenario is underscored by the fact that in the financial year so far (1st April 2009 to 14th August 2009), banks collectively lent Rs 26,421 crore. In the corresponding period last year, banks had disbursed nearly three times (Rs 76,902 crore) more. With an incremental deposit growth during the period of Rs 2.25 lakh crore, which is over 1.5 times the deposit growth of Rs 1.35 lakh crore in the corresponding year ago period, banks had no choice but to invest predominantly in Government securities and liquid schemes of mutual funds as credit pick up had slowed considerably due to the tepid economic outlook.

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NHB Residex to cover 63 cities by next year 7th September, 2009. Hindu Business Line

National Housing Bank (NHB) aims to cover all cities with population of over 1 million under its NHB Residex, which is the country's first official residential property price index. Currently, the NHB Residex gives relative movement of residential property prices in different localities in 15 cities. Meanwhile, NHB is in the process of developing valuation standards for residential properties to ensure some uniformity in valuations. "There have been wrong practices in the valuation of property that have led to frauds in the banking system. We are trying to plug them by adopting new standards of valuation. It is still work-in-progress," Mr Sridhar, Chairman of NHB, said.

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India Corporate Debt-Bankers see more short-term issuances 7th September, 2009. Reuters India

Indian corporate borrowers are expected to borrow more through short-term debt issuances, taking advantage of lower rates and ample liquidity in the banking system. Short-term rates up to six months are very cheap due to the current liquidity conditions and companies are making good use of that, said a senior merchant banker. While banks regularly borrow through short-term certificates of deposit, a number of corporate like Exim Bank, National Bank for Agriculture and Rural Development (NABARD) and Reliance Communications Ltd have borrowed via commercial paper with a tenure of up to six months.

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Banks shorten loan tenures 7th September, 2009. Business Standard

Uncertainty on interest rates and competition among banks are forcing lenders to lend for the short term and introduce interest rate reset clauses that kick in as early as three months. At a time when credit demand is low, companies are resorting to the practice of getting a loan sanctioned from larger players, such as State Bank of India, and using it to negotiate a better deal from another bank, especially smaller public sector and private banks. As a result, the larger players have started opting for short-term loans. Banks typically reset interest rates after a year, but are now exercising the option as early as three months, though in some cases the review of the rate takes place after six or nine months, the executive director of a mid-sized public sector bank said.

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Banks step back as you draw out! 8th September, 2009. Hindu Business Line

There is a sharp rise in the number of transactions at ATMs in the country. Data from the National Payments Corporation show that the number of balance enquiries at the ATMs went up 14 fold and the number of cash withdrawals rose ten-fold even as the number of ATMs themselves doubled during the past one-and-a-half years. It takes an average of 200 hits or withdrawals from an ATM a day for the investments to break even. Going by the usage patterns a little over a year ago, it seemed as though that was not happening. But ever since 1st April 2009, when the RBI threw open access to all ATMs for all bank customers, ATM usage has sky-rocketed. Average hits every day was about 1,100 (about 800 for cash withdrawals alone) for August spread across 42,375 ATMs in the country.

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Banks to underwrite entire syndicated loan for corporate
8th September, 2009. Hindu Business Line

In a bid to push big ticket loans to India Inc, banks are now willing to underwrite the entire syndicated loan for corporates. This move is significant as it comes at a time when the credit off-take scenario is dismal. Hitherto, the lead bank(s) of a corporate used to offer plain vanilla loan syndication facility. Under the arrangement, there was no guarantee that the bank(s) would be successful in tying up the funds that a corporate was seeking to raise for setting up a greenfield project or undertake a brownfield expansion. When the loan requirement of a corporate is large, then its lead bank(s) undertakes to syndicate the loan. The lead bank(s) on their part take a large credit exposure to the corporate even as they maintain a prudent and manageable credit exposure by roping in other banks which take a portion of the loan on their books.

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RBI eases credit rules for SEZs
10th September, 2009. The Economic Times

The Reserve Bank of India (RBI) has made it easier for banks to lend to special economic zones (SEZ). Several types of advances to projects in special economic zones have now been excluded from the definition of commercial real estate loans. Now with the central bank clarification, loans to those developing, operating and maintaining SEZs as well as setting up or acquiring units in SEZs will be part of infrastructure lending. RBI has sought to define a commercial real estate loan as one where the funds are used to acquire real estate and the repayment of the loans is out of proceeds of sale or rentals from the property.

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Banks continue to refinance CDs as rates remain low
11th September, 2009. Business Standard

Banks continued to issue six-month certificates of deposit (CDs) as March maturity papers were offered 70-80 basis points below compared with April maturity CDs, dealers said. Banks are only keen on issuing six-month CDs due to the lower rates it offers," said a dealer with a state-owned bank. Banks were also mainly refinancing their existing CDs at lower rates on views that the rates could inch up by September 2009 end, dealers said.

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Banks to rejig MF sale strategy
12th September, 2009. Hindu Business Line

Banks are mulling new models for selling mutual funds, preferably by introducing a mix of advisory and distribution services, now that the Securities and Exchange Board of India has banned entry load on mutual funds. A section of banks is planning to identify some of their existing branches to exclusively offer advisory services, according to senior bank officials and industry experts. Till recently, most banks were into plain vanilla distribution of mutual fund products. While public sector banks are yet to garner a big pie in this regard, the MF sale accounts for a substantial share of private and foreign banks' fee-based income.

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RBI to unveil draft norms for allowing repo in corp bonds
12th September, 2009. The Economic Times

RBI is on track to put in public domain draft guidelines for repo in corporate bonds. The central bank is also set to have a policy framework in place for the introduction of credit derivatives, with adequate safeguards, factoring in the lessons from the global crisis, according to RBI deputy governor Usha Thorat. The current regulatory policies in India do not allow banks to guarantee corporate bonds. By allowing repo or ready forwards there could be more incentive for corporates to tap the market for funds directly through the issue of bonds. It makes possible for investors in these bonds to trade in the secondary market, thereby making these bonds liquid.

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ICICI Bank to seek probe into "sabotage" acts by rivals
13th September, 2009. Business Standard

Stung by reports that it sold dud home loans, ICICI Bank has decided to approach the government agencies and market regulator SEBI for a thorough probe into what it called an attempt to 'sabotage' the bank by some corporate rivals. We apprehend that some corporate entity with interests in financial sector is behind the attempts of sabotage. We will ask for a probe by the Economic Offences Wing, Securities and Exchange Board of India (SEBI) and other agencies, an official of ICICI Bank said.

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PSU banks seek govt help to meet capital needs
14th September, 2009. The Economic Times

Many state-owned banks, anxious to maintain growth, are queuing up before the government for funds. The finance ministry has asked these banks to spell out the additional capital they would need over the next three years for maintaining a capital adequacy ratio (CAR) of 12% by fiscal 2012. Over the past week, senior officials of the PSU banks have had separate meetings with finance ministry officials to discuss the matter. The government is expected to receive a \$2-billion soft credit line from the World Bank to support local banks.

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ICAI requested RBI to re-audit bad home loans sold to ARCIL by ICICI bank for irregularities
14th September, 2009. TaxGuru

The Institute of Chartered Accountants of India (ICAI) has raised questions about ICICI Bank's home loans business and has sought a fresh central bank audit of a two-year-old sale deal of dud loans, after a Mumbai-based chartered accountant spotted irregularities in some loans. "The regulator should re-audit assets sold to ARCIL," ICAI president Uttam Prakash Agarwal told to a leading newspaper, referring to the sale of bad home loan assets worth over Rs 10,000 crore by the bank to the asset reconstruction company. ICICI Bank is accused of lending money for the purchase of some apartments in a housing project in a Mumbai suburb, and in some cases twice for the same set of apartments. According to the chartered accountant who spotted irregularities, the bank disbursed home loans for the purchase of 15 apartments in the Ritu Paradise Project developed by S R Developers in Mumbai's Mira Road. Documents available with ICAI show that double loans were issued by the Bank on some flats.

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Russia's largest bank to open branch in India
14th September, 2009. Business Standard

Russia's oldest and largest state-run retail bank - Sberbank (Savings Bank) - is to shortly open its branch in New Delhi as part of its strategy to expand in the emerging markets. The Reserve Bank of India (RBI) last month cleared Sberbank's application for opening a fully-operational branch in New Delhi and currently it is completing the formalities for obtaining banking license from RBI and hiring staff, the Russian bank said in its release.

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Public sector banks back on recruitment overdrive
15th September, 2009. Hindu Business Line

Even as job opportunities remain scarce in other sectors, banks are continuing to hire, providing relief to youngsters. Currently, about 15,000 vacancies have been notified by the public sector banks (PSBs) including grameena banks and many more are in the offing. State Bank of India is leading with a mass recruitment drive of over 11,000 clerks and 60 others. Corporation Bank had also advertised to fill about 625 vacancies of clerks and officers. According to experts, the large-scale retirements in PSBs and the change in the business models of banks with the implementation of core banking solution (CBS) are driving recruitment.

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RBI blames poor loan recovery for Sikkim's low CDR
16th September, 2009. Hindu Business Line

The Reserve Bank of India has expressed its dissatisfaction over the credit-deposit ratio of banks in Sikkim, which stands at 43:100. The RBI has attributed this to poor loan recovery rate in the agriculture sector, accounting for the largest portion of bank loans in the State. However, it is informed that only 22 per cent of agriculture loan in Sikkim is not recovered compared with 40 per cent in the national level. Besides, the private sector banks operating in the State do not maintain their Statewise record about the loans advanced by them in various sectors, which also attributes to a lower credit deposit ration in Sikkim.

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More banks eye loan syndication space
16th September, 2009. Hindu Business Line

State-owned banks such as Union Bank of India, Bank of India, Allahabad Bank, Corporation Bank, UCO, United Bank of India are gradually making inroads into this domain and giving the traditional leaders in the loan syndication market such as SBI Capital Markets, Axis Bank, IDBI Bank, a run for their fee income. The prospect of earning an attractive fee income by leveraging their corporate relationships is luring banks to set up loan syndication desks. Also, corporate customers are more comfortable when the entire loan syndication deal is handled by a single bank rather than approaching several banks themselves.

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Banks engage in deciding ATM locations under new regime
16th September, 2009. The Economic Times

Banks are engage in intense number crunching in deciding ATM locations under the new regime which allows all accountholders charge-free access to third-party ATMs. Banks have to choose locations where they get a proper mix of transaction from their own as well as from customers of other banks. Banks are mining data on customer addresses and ATM usages to determine ideal locations for installing ATMs. They are using the ATM usage data to optimise their ATM operations. The exercise entails identifying ATMs that the banks' customers access frequently and relocating the ones that are used sparingly.

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RBI flashes red signal at MLM companies
17th September, 2009. Indian Express

The operations of shady multi-level marketing (MLM) companies — which operate what are popularly known as pyramid or ponzi schemes — have come under the regulatory scanner with shady MLM companies mushrooming across the country and duping investors. In a circular, the Reserve Bank of India has alerted banks that in cases where accounts have already been opened in the names of the marketing agencies, retail traders and investment firms, the banks should undertake quick reviews. With many MLM companies recently using the banking technology to dupe investors, the RBI said, "banks should be careful in opening accounts of the marketing/trading agencies etc. Especially, strict compliance with KYC (know your customer) and AML (anti-money laundering) guidelines issued by the RBI should be ensured in the matter."

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'Company director can't be held responsible for bouncing of cheque'
17th September, 2009. Hindu Business Line

The Madras High Court has held that in a case of cheque bouncing, the accused facing trial for the alleged offence under Section 138 of the Negotiable Instruments Act should be in-charge of and responsible for the day-to-day affairs of the accused company and he should also be one of the signatories of the cheque. Allowing a criminal original petition filed by Mr Kalidas, Director, Kaveri Engineering Industries Ltd, Tiruchi, challenging the proceedings initiated in the court of XIV Metropolitan Magistrate. In the petition, the respondent, the Industrial Reconstruction Bank of India, Chennai, complained that a cheque for a sum of Rs 25 lakh issued by the company was dishonoured and that despite the notice, the amount covered by the cheque had not been paid. The counsel for petitioner/second accused, Mr M. Arvind Subramaniam, contended that though a Director of the company, the second accused was not in-charge of and responsible for day-to-day affairs. The Judge cited the decision of the apex court in SMS Pharmaceuticals Ltd vs Neeta Bhalla & Another [2008 1 LW (Cri) 50] which said that Section 141 of the Act did not say that a director of a company shall automatically be vicariously liable for commission of an offence on behalf of the

company. Sufficient averments should be made to show that the person must be in-charge and shall also be responsible to the company for the conduct of its business.

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RBI again restrains GICB from doing banking transaction 19th September, 2009. The Economic Times

Reserve Bank of India has once again restrained Gujarat Industrial Co-operative Bank (GICB) from doing any banking transaction, much to the disappointment of its 15,000 odd depositors who queued outside the bank premises on 19th September 2009. GICB customers who queued outside the bank in hoping revival of banking activity here were a disappointed lot as RBI has extended the limit by six months that restrains the financial institution from doing any business transaction, a bank customer said. Last year, Reserve Bank of India had imposed restrictions on the functioning of GICB till 19th September 2009, another bank customer said.

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RBI against banks slapping penalty on loan prepayment 22nd September, 2009. The Economic Times

The Reserve Bank of India has frowned on the practice of banks slapping penalty charges on premature repayment of loans, saying it does not approve of such charges. But it stepped back from any role in enforcing its point of view. Replying to an RTI query, the central bank said, "RBI does not approve of charging penalty or foreclosure charges. We have advised banks to lay out appropriate internal principles and procedures so that usurious interest including processing and other charges are not levied by them on loans and advances." The RBI admitted it had received complaints on levy of prepayment penalty by banks who had been "suitably advised". But it was silent on what action had been taken against banks who ignored the advice. The charges disadvantage those wanting to pay off a loan or move to one offering better terms.

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Pvt placement debuts in public sector banks 22nd September, 2009. Business Standard

Public sector player Punjab & Sind Bank (PSB) is drawing up plans to privately place equity shares with institutional investors ahead of an initial public offer next year. PSB intends to offer around 5 per cent each to institutional players such as the Life Insurance Corporation of India, General Insurance Corporation, Small Industries Development Bank of India (SIDBI) and UTI Asset Management Company, a bank executive familiar with the plans told Business Standard. This follows the Reserve Bank of India's rejection of the bank's proposal to sell a 30 per cent stake to SIDBI. Sources close to the development said RBI was not comfortable with the idea of an entity other than the government holding more than 10 per cent in a commercial bank. PSB, which has turned around over recent years by restructuring and recovering bad debt, was aiming to raise Rs 600 crore to Rs 700 crore by selling the stake to SIDBI.

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Trading of 'forced' loans in the works 23rd September, 2009. The Economic Times

The Reserve Bank of India (RBI) has started preparing guidelines for trading of directed credit obligations—loans which every bank is required to provide mandatorily— among banks and other financial institutions. The central bank will begin discussions with various stakeholders to put a framework in place for trading of these lending obligations, such as those specified under the priority lending norms. When this mechanism is in place, the central bank will kickstart the trading, a senior RBI official told ET. This will come as a major boost to regional rural banks or specialised finalised institutions like National Bank for Agriculture and Rural Development (Nabard) and Small Industries Development Bank of India (Sidbi), which primarily give loans to special customers in the farm sector or small industries. Such institutions could then trade their loan portfolio with foreign banks and private sector, which are unable to meet the priority sector lending target due to the lack of presence in rural and semi-urban areas. Thus, trading of such loan portfolios is likely to emerge as a new revenue stream for such banks.

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Parking under LAF dips below Rs 100,000 crore
23rd September, 2009. Business Standard

Banks parked less than Rs 1,00,000 crore at the Reserve Bank of India's (RBI's) reverse repo window after almost five months as they used a part of their liquid funds for lending and state government auctions. This, however, did not push the overnight lending rates. The overnight call rate moved in the range of 3-3.30 per cent. According to RBI data, the central bank absorbed Rs 91,755 crore under the liquidity adjustment facility (LAF). RBI infused no amount under the LAF repo operation. A head of treasury with a large public sector bank said a part of the funds were used in the state government auctions during which nine states raised over Rs 9,000 crore through 10-year bonds. The mutual funds will also deploy less funds in the market as they will like to remain in cash to meet the redemption demand at the close of the second quarter.

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Revised banking code to benefit small customers
23rd September, 2009. Business Standard

Customers — retail and micro and small enterprises (MSEs) — will no longer take deficiency in banking services lying down. They can confront banks with the revised 'Code of Bank's Commitment to Customers' in this regard. According to the revised code drawn up by the Banking Codes and Standards Board of India, banks have to clearly outline, among others, their policies pertaining to cheque collection, compensation, collection of dues/security repossession, and grievance redress on their Web sites.

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Credit disbursals by banks on the rise
24th September, 2009. Hindu Business Line

As the second quarter is drawing to a close, loans disbursed by scheduled commercial banks have surged by Rs 18,374 crore in the fortnight ended 11th September 2009 as against Rs 5,613 crore in the preceding fortnight. According to scheduled banks' statement of position released by the Reserve Bank of India, the outstanding position of banks' advances was Rs 28,25,957 crore, as on 11th September 2009. Credit disbursed by banks in the second quarter so far aggregated to about Rs 27,000 crore. The spurt in credit, bankers say, is due to demand from oil, housing finance companies and a host of companies drawing previously sanctioned limits. Borrowing by housing finance companies indicates a pick up in demand for housing loans.

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CBI files chargesheet in banking fraud of Rs 1.25 cr
24th September, 2009. The Economic Times

CBI has filed a chargesheet in a Delhi court against nine persons, including three officials of Punjab National Bank, for allegedly granting credit facility of Rs 1.25 crore to a private firm on the basis of over-valued mortgaged properties. Investigation has revealed that the accused bank officials, by their act of omission and commission, disregarded the norms and banking rules, entered into a criminal conspiracy with private persons and caused a loss of Rs 1.25 crore to the bank. The probe agency has sought prosecution of nine accused including two bank officials. The firm, engaged in export of garments, had opened an account with PNB at its Defence Colony branch and sought credit facilities by proposing to mortgage its three properties in the capital, CBI said.

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Public sector banks getting \$2 b to shore up capital
24th September, 2009. Hindu Business Line

Public sector banks will soon get a \$2-billion bonanza. This money is being made available by World Bank through the Finance Ministry, which will get the funds via a Development Policy Loan (DPL). There are no conditions imposed on the public sector banks, Mr Roberto Zaghera, World Bank Country Director for India, told reporters here through a video conference from Washington. The support will help the recipient banks shore up capital. A call on a possible second DPL of \$1 billion to the Indian banking sector will be made after six to seven months, Mr Zaghera said.

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RBI tells banks to do a realty check
25th September, 2009. The Economic Times

No central banker wants to repeat the mistakes of Alan Greenspan, the former US Fed chief, whose loose monetary policies are blamed for the subprime mess. With the first hint of a bubble in the local property market, the Reserve Bank of India (RBI) has told banks to watch out for pitfalls while giving loans to builders. In a communiqué to bank CEOs, RBI has said that it has been observed that some of the companies operating in the real estate sector have significant exposure in the form of advances, investments, etc to their subsidiaries and other group or related entities. As a matter of prudence, banks may meticulously assess the inherent group risk of their borrowal accounts falling under the purview of real estate sector.

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Bank employees oppose World Bank loan
25th September, 2009. Hindu Business Line

The All India Bank Employees' Association (AIBEA) has strongly opposed the Government's proposed move to avail itself of World Bank loan for shoring up the capital of some public sector banks. "Our public sector banks are nation-building institutions and they must remain so. World Bank loan will definitely aim at diluting the social objectives of PSBs. Public sector banks deal with huge public savings. We should not mortgage the interests of our banks to the World Bank," the AIBEA General Secretary, Mr C. H. Venkatachalam, said.

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Public sector banks' advance tax outgo points to robust profits
25th September, 2009. Hindu Business Line

Public sector and state-owned banks foresee robust net profit growth in 2009-10 going by the healthy rise in their advance tax payouts for the period up to the 15th September 2009 instalment. These banks have clearly resisted the economic slowdown on the back of expanding credit and treasury gains. Public sector banks have been more or less untouched by the global financial crisis. On the other hand, the advance tax payouts of the large private and foreign banks show a mixed picture with only few recording a sizeable increase in percentage terms.

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More States may offer banks early exit from development loans
25th September, 2009. Hindu Business Line

West Bengal has offered banks early exit options on State Development Loans (SDL) to make the borrowings attractive, and the move could soon set a trend. West Bengal offered a four-year put option at the SDL auction on 22nd September 2009. At the auction nine States raised Rs 9,450 crore. All States barring West Bengal offered plain-vanilla SDLs. State Development Loans are normally placed for 10 years and are sovereign guaranteed. The West Bengal offering was well accepted, as was apparent from the high bid-to-cover ratio, which measures the interest in a securities auction. More States are now expected to take the cue from West Bengal, traders said. Such an exit option could help States overcome banks' reluctance to get involved with long-duration securities, which is evident from wide spreads.

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Banks eye low-cost NRI deposits
27th September, 2009. Business Standard

Even though inward remittances continue to surge, banks are chasing foreign currency non-resident (FCNR) and non-resident external (NRE) term deposits, a source of low-cost funds. Banks, which do not have significant non-resident Indian (NRI) deposit portfolio, are now on a run to develop one in order to make the most of the surge in inward remittances in the aftermath of the global financial crisis. However, banks are increasingly finding it difficult to retain NRE and FCNR term deposits as most of them are getting diverted to high-cost non-resident ordinary (NRO) term deposits, although interest earned on these deposits is subject to tax deduction at source (TDS), exchange rate risk and cannot be generally repatriated.

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Lenders may tighten stand on defaulters
28th September, 2009. The Economic Times

Banks will soon be in a better position to recover their dues from defaulters. The Reserve Bank of India (RBI) and the government have agreed to give claims by secured lenders priority over similar claims made by a state sales tax authority. The government is also considering an amendment to the Debt Recovery Tribunal Act or DRT Act, which will make it necessary for the tribunal to hear the lenders before it issues a stay order on attachment of assets. The government has agreed to amend the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act and the DRT Act to bring about these changes, said a person with knowledge of the matter. Once the amendments are in place, any secured lender who disposes assets of a defaulter will be able to use the proceeds to settle the loan outstanding.

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Banks put Rs 10,500 cr in tank for growth journey
28th September, 2009. Business Standard

With the demand for credit expected to shoot up, private banks are bolstering core capital. Seven of them are in the process of raising a cumulative Rs 10,500 crore in equity to fund expansion, which, in some cases like Axis Bank's, includes entry into mutual fund, private equity and wealth management businesses. Although credit growth has fallen to 13.24 per cent in the 12 months to 11th September 2009, bankers expect it to pick up in the second half of this financial year. "More than their immediate needs, banks are looking to tank up for the future," said an investment banker who worked on Axis Bank's \$720 million (Rs 3,456 crore) institutional investors and global depository receipts issue. The country's third largest private sector lender is raising another Rs 444 crore through a preferential issue of shares to Life Insurance Corporation and New India Assurance.

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ONGC against parking funds with PSBs
28th September, 2009. Business Standard

Finance ministry asks it to deposit surplus funds only with PSU banks; loses Rs 200-300 crore in interest revenues annually. Oil and Natural Gas Corp (ONGC) has protested against the finance ministry's directive of parking surplus funds with only the PSU banks, saying that the state-run banks, on getting assured business, act in a cartel and start offering interest rates lower than even retail deposits. ONGC, which has a cash surplus of about Rs 18,000 crore, is losing Rs 200-300 crore in interest revenues annually, after it was forced to discontinue the practice of calling competitive rates for parking its cash. ONGC, which had previously written to the government on the subject in July 2009 and August 2009, wanted the finance ministry guideline to be scrapped and PSUs be allowed to call competitive interest rate bids from both PSBs and private sector banks.

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One default may block all your credit cards
29th September, 2009. The Economic Times

Customers having multiple credit cards will now not be allowed the luxury of using either in case they default on making payments for even one, thanks to stringent measures being adopted by the banks. As per the prevalent practice, banks are blocking only that card on which there is a payment default and the other cards held by the customer are not touched. However, the banks have now revised their credit card terms and conditions, pursuant to which all cards would be blocked, if there is a payment default on even one.

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Focus more on Casa deposits, govt tells public sector banks
29th September, 2009. Business Standard

The government has asked public sector banks (PSBs) to increase focus on attracting low-cost current account, savings account (Casa) deposits in order to contain their cost of funds. It will also enable them to maintain a softer interest rate regime. The government has asked for specific Casa targets from public

sector players, which have been provided by the banks as part of the discussion on statement of intent setting the targets for the current financial year. Bankers said that most public sector players had indicated a Casa growth of 17-20 per cent for the current financial year. While the banks earlier focused on deposit growth, Casa deposits are coming into prominence for the first time. The move comes amid expectations of hardening of interest rates.

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RBI against PPP model for central loan registry
29th September, 2009. Business Standard

The Reserve Bank of India (RBI) has expressed its reservations on the government's proposal to set up a computerised central registry for keeping records of loans mortgaged against securities in a public private partnership (PPP) mode. The banking regulator is of the view that a government official should head the registry and that a PPP model will not be suitable for running it. The registry, once operationalised, would help check frauds in the sale and mortgage of properties by providing details to the bank or the buyer at the click of a mouse. In India, the absence of such a registry has led to borrowers taking loans from other banks using duplicate title deeds. Also, there have been complaints of banks losing the deeds and/or not returning the same in case there is any other loan outstanding.

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Banks not keen to back emission reduction projects
29th September, 2009. Hindu Business Line

In the absence of a national policy and regulator for carbon credits, banks are reluctant to get involved in financing projects taken up by industrial units to bring down carbon/ greenhouse gas emissions, the Indian Banks' Association said in its report on carbon credits to the Reserve Bank of India. With climate change and its adverse implications on economies, health, food production, security, etc., proving to be major challenges world over, the association's observations about the lack of a policy framework on carbon credits hampering banks' ability to finance industry's efforts to embrace green technologies are significant.

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TN banks pip peers in credit ratio
29th September, 2009. The Financial Express

The credit ratio reported by banks in Tamil Nadu stood at 114% for the year ended June 2009. This is one of the highest among the states in India. At a State Level Bankers' Committee (SLBC) meeting held recently, it was declared that credit ratio of banks in Tamil Nadu grew 18.77% during the year ended June 2009 to Rs 2,34,659 crore. Banks in the state have reported a 15.72% growth in the gross credit over the same period to touch Rs 2,67,492 crore. The share of outstanding priority credit advances to total credit at the end of June 2009 was at 39.58% as against the national norm of 40%. Under the annual credit plan 2009-10, banks in the state have disbursed total credit of Rs 8,910.94 crore up to the first quarter ended June 2009, with an overall achievement of 88% of the proportionate target.

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Demand for LCs, bank guarantees on the rise
30th September, 2009. Business Standard

The global economic slowdown and the subsequent revival have resulted in a rise in the demand for risk mitigation products such as Letters of Credit and bank guarantees. Earlier, trade finance was moving away from such secured transactions towards open account transactions. But with the global liquidity crunch and exporters entering into new markets such products are gaining popularity once again, say bankers. In the current financial environment, the demand for secured transactions could see a rise for the next year-and-half as it depends on when the customer achieves a level of comfort with his counterparty again.

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Section V: On the Watch

RBI frowns on sub-PLR loans, bankers resist **9th September, 2009. Business Standard**

The Reserve Bank of India (RBI) is against lending by banks below their benchmark prime lending rates (BPLRs) — a stance that has met with stiff opposition from bankers. The central bank's committee on BPLR review, which met last week, was of the view that the practice of lending below BPLR needed to be discouraged in order to make pricing of risk more transparent.

According to a banker who attended the meeting of the panel, which is headed by RBI Executive Director Deepak Mohanty, the central bank was of the view that core deposits of the banks should not be used for lending below the prime lending rate.

About three quarters of the bank lending happened at sub-BPL rates, while core deposits constituted around 80 per cent of banks' total deposits. Deposits having tenure of more than one year are considered core deposits which gives stability to a bank's liability portfolio.

Over the last few months, RBI has made known its concerns over lending below BPLR and had set up a committee to review the structure. However, bankers have pointed out since BPLRs of banks were very high with some having it at around 16 per cent, it will be difficult for banks to disallow sub-PLR lending.

"If a bank has surplus liquidity, then instead of lending it to call market or parking in the reverse repo tender for 3.25 per cent, banks can deploy resources on short-term basis for 7 per cent," a banker who attended the meeting said. Another banker said that large companies might be unwilling to borrow for the short term at the prevailing BPLR.

On the issue of separate BPLR for retail and wholesale customers, there seemed to be disagreement among RBI officials, sources said. "Some RBI officials feel that separate benchmark is not a good idea as pricing should be done on the basis of risk perception of the borrower and not on whether it is corporate or retail," sources said.

A section of the committee members suggested separate BPLRs for retail and corporate sectors with the former BPLR at a higher level than that for companies. Though most of the Indian banks presently have one BPLR, ICICI Bank has two benchmark rates for its retail and corporate clients. However, ICICI Bank's retail BPLR is lower than its corporate benchmark.

The committee has already missed one deadline for submitting the report which was extended by a month to end September. IBA Chief Executive K Ramakrishnan had said that the report would come out by the end of the month.

After the last week's meeting, RBI has referred back its suggestion in the form of a draft report to the Indian Banks' Association which is seeking further feedback from banks. Based on the IBA recommendations, the committee is once again scheduled to meet by the middle of this month.

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Miscellaneous Articles [Extracts]

Govt cuts farm loan interest subsidy to 2% **10th September, 2009. Business Standard**

The government today cut the interest rate subsidy to two per cent for this fiscal on farm loans given by the public sector banks from three percent last year. A decision to this effect was taken by the union cabinet, information and broadcasting minister Ambika Soni told reporters. The financial implication due to the interest subsidy on farm loans by PSU banks, Regional Rural Banks and co-operative credit institutions were at Rs 4,311 crore in 2008-09. It was estimated to be at about Rs 4,000 crore in the current fiscal, the minister said. Under the interest subvention scheme, the government will pay 2 per cent interest subsidy to banks for granting short-term crop loan to farmers at a concessional rate of 7 per cent.

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Banks seek RBI nod to stand guarantee for corporate bonds
11th September, 2009. Business Standard

The Reserve Bank of India (RBI) should allow credit enhancement on corporate bonds wherein banks guarantee such bonds to make the market more liquid and improve tradability, said S Vishvanathan, chief executive officer and managing director of SBI Capital Markets today. In May 2009, the RBI had reminded banks to not guarantee bonds or debt instruments after State Bank of India guaranteed Tata Motors' bond issue. The central bank had said banks could only guarantee loans to corporates. However, the central bank had made an exception and allowed SBI to go ahead with the guarantee, but asked them to not enter into similar contracts later.

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FM assures continued support to banks
13th September, 2009. Business Standard

While appreciating the role of public sector banks (PSBs) in protecting the economy against the global economic turmoil, Finance Minister Pranab Mukherjee assured them that the government would continue to support them. At a closed door meeting with bankers, the finance minister said while banks had been rightly responding to the needs of the economy, the government would continue to provide "whatever assistance needed" by them, according to senior bankers present at the meeting.

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Bankers urge RBI to unwind slowly
19th September, 2009. The Economic Times

Banks have urged the Reserve Bank of India (RBI) not to unwind its expansionary policy in a hurry, even as they see strong signs of an economic revival. RBI governor D Subbarao met the CEOs of large commercial banks to seek their views on liquidity, interest rates and inflation. Mr Subbarao also obtained information on credit and deposit growth and bad loans from select bankers. Most CEOs said they were witnessing fresh demand for credit from the retail and core sectors. However, they were quick to add that RBI should slowly unwind the expansionary policy, said an official present in the meeting on the condition of anonymity. The bank chiefs also urged RBI to hike the statutory liquidity requirement and the share of government securities that can be parked in the held-to-maturity (HTM) basket.

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Lakhpatis on the double to banks
20th September, 2009. Hindu Business Line

Indian banks carried as of March 2009, more accounts with balances in excess of Rs 1 lakh than a year ago, an analysis of the data on Indian economy published by the Reserve Bank of India reveals. From 7.7 crore such accounts, the number has nearly doubled to 14.5 crore. In value terms, too, the amounts deposited with banks in excess of Rs 1 lakh have shown a similar increase. High-value deposits (Rs 1 lakh and above) have jumped from approximately Rs 11.80 crore as of March 2008 to Rs 14.90 crore, an increase of a little over 25 per cent in one year. That big ticket deposits have risen at a faster rate is evident from the fact that deposits on the whole have grown by only 14 per cent.

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Bank unions to meet IBA over wage revision
23th September, 2009. Business Standard

A crucial meeting between the representatives of the United Forum of Bank Unions (UFBU) and the Indian Banks Association (IBA), scheduled on 24th September 2009, is likely to discuss wage revision and other demands of about 10.5 lakh bank employees and officers in the country. After the success of the two-day strike, the IBA informed them that they have finalised a package that envisages 17.5 per cent increase in wages and New Pension Scheme (NPS) for new entrants from April 2010, among other things, he said. Compassionate appointment issue would be discussed separately

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