

KHURDIA JAIN & CO.

CHARTERED ACCOUNTANTS

BANKING SNIPPETS FOR SEPTEMBER 2018

1. **PAYTM BUILDING NEW TECHNOLOGY TO CHECK "CREDIBILITY SCORE" OF BORROWER:** Paytm is evolving a mechanism to determine the "Credibility Score" of a person seeking loan from banks. The company's team in Toronto is actively working on a reliable system that can be relied upon by banks to ascertain the credibility of a loan seeker. Paytm's Toronto team is working on an algorithm based on a person's digital transactions to present a solution. If reliable system is evolved, it can predict with sufficient accuracy about the capacity and willingness of an individual to repay his loan.
2. **AIRTEL PAYMENTS BANK OFFERS CARD-LESS CASH WITHDRAWAL AT SELECT ATMs:** Airtel Payments Bank has tied up with Empays Payment systems to enable its savings account holders to withdraw cash using their mobile phones through the card-less cash technology of Empays which is called Instant Money Transfer (IMT). So now Airtel Payment Bank customers can make card-less cash withdrawals at select ATMs across the country using IMT technology. IMT is the largest interoperable card-less cash ATM network in the world, built and run by Empays Payment Systems India Pvt Ltd.
3. **MONETARY LIMIT FOR FILING CASES IN DRT INCREASED TO Rs 20 LAKH:** The government has increased the monetary limit to Rs. 20 lakh for filing loan recovery application in the Debt Recovery Tribunals (DRTs) by banks and financial institutions. As a result any bank or financial institution cannot approach DRTs if the claim amount is less than Rs. 20 lakh. This amount is enhanced to help reduce pendency.

703, Ashok Heights, Nikalas Wadi Road, Near Bhuta School, Opp. Saraswati Tower, Old Nagardas Cross Lane, Andheri (East), Mumbai-400 069 Tel.:26842700 /01 / 02

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4. **BANK CREDIT ROSE BY 13.49% AND DEPOSITS BY 8.9%:** Bank credit grew by 13.49% in the fortnight ended August 31, 2018. The total bank credit as on 31 St August 2018 stood at Rs. 87,89,259 crore. The credit during the same period a year ago stood at Rs. 77,44,237 crore. In the fortnight ended 31 St August 2018, deposits grew by a mere 8.8% to Rs 116,45,870 crore from Rs. 106,96,099 crore in the same period last year. Loans to Agriculture and allied activities rose by 6.6% during the same period.

5. **RAHURAM RAJAN CAUTIONS ON MSME LENDING:** Mr. Raghuram Rajan, former governor of RBI has warned that the next build-up of Non-Performing Assets (NPAs) could be in the loans to Medium Small and Marginal Enterprises (MSMEs) under the credit guarantee schemes. Mr. Rajan said that the government should now concentrate on sources of the next crises and should refrain from setting ambitious targets. He said that credit targets were sometimes achieved by abandoning appropriate due-diligence, thereby creating the environment for future NPAs. Both Mudra and Kisan Credit cards have to be examined more closely for potential credit risk. He also pointed out that the Credit Guarantee Scheme for MSME (CGTMSE) run by SIDBI is a growing contingent liability and needs to be examined with urgency.

6. **INDIANS ARE MORE ADHERED TO PERSONAL**
LOANS: According to RBI data, in May 2010, the total outstanding personal loan amount with banks was Rs. 5.89 lakh crore. This amount as on June 2018 was Rs. 19.33 lakh crore. Consumer durable loans as on May 2010 were Rs. 8,010 crore, and on June 2018 it was Rs. 20,300 crore. Outstanding credit cards amount as on May 2010 was Rs. 19,579 crore, and on June 2018 it was Rs 74,400 crore. Since 2010 banks have changed their strategies and have started focussing on these un-secured loans. A large proportion of customers taking personal and consumer durable loans are working class in the age group of 25-45 years.

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- 7. BANK OF BARODA, VIJAYA BANK AND DENA BANK TO BE MERGED:** The government has proposed the merger of Bank of Baroda, Dena Bank and Vijaya Bank and once the merger is through then this will be the country's third largest bank. The combined entity will have a strong presence across nation with more than 34% of low-cost deposits (Savings + Current), a capital buffer of around 12%, and a total business of around 15 lakh crore. Bank of Baroda is the biggest of the three with a total business chunk of Rs.10.29 lakh crore, followed by Vijaya Bank at Rs. 2.70 lakh crore and Dena Bank at Rs. 1.72 lakh crore. Shortly all the three bank boards will meet and after adequate consultation, will take a decision.
- 8. GOVERNMENT DOUBLES NPA RECOVERY FOR PSBs FOR THIS FISCAL:** The government expects the state-run banks to recover Rs 1.5 lakh crore of bad debts during the current financial year. This is double the amount that banks had managed to recover last year. Total NPA recovery during 2017-18 was Rs 74,000 crore. NPAs have been a major concern for public sector banks as almost all banks have been under losses because of this.
- 9. SMALLER PSBs ASKED TO CONSOLIDATE OPERATIONS, AVOID COMPETING WITH LARGER BANKS:** The government has asked smaller public sector banks to consolidate their banking operations in the same geographic area, close overlapping branches and avoid competing with larger banks and instead has asked them to focus on niche areas. The move comes close on the heels of government's proposal to merge Bank of Baroda, Vijaya Bank and Dena Bank to create country's third largest bank. Smaller banks should not be competing for large corporate loans or for sectors where they don't have strength or capacity to lend. The government is planning National banks and Regional banks and existing lenders have to make plans for reorganising their organisational resources, human resource and Information technology systems. Finally the government is looking at trimming the number of banks to around 10 from the existing 21.

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10. BANKS UNDER PCA HAVE BEEN TOLD TO PRESENT THEIR

TURN AROUND PLANS: Banks that are under Reserve Bank of India's Prompt Corrective Actions (PCA) framework have been asked to present their turn-around plans and look at leveraging their competitive advantage for regional market business. Finance Minister will hold a quarterly review of the performance of these banks which are under PCA.

11. RBI SETS THE RULE FOR JOINT PRIORITY SECTOR

LENDING: The Reserve Bank of India has directed Public Sector banks to jointly lend to priority sector along with Non-Banking Finance Companies (NBFCs). RBI has now allowed this joint lending along with NBFCs to push priority sector loans and to reap the benefit of the strengths of two sets of lenders. The Priority sector will have the benefit of low cost funds from the banks and lower cost of operations of NBFCs which would be passed on to the ultimate beneficiary through blended rate and weighted average rate. A single blended fixed rate of interest will be offered to the ultimate borrower based on respective interest rates and proportion of risk sharing.

12. GOVERNMENT TO TAKE ALL MEASURES TO ENSURE

LIQUIDITY IN NBFCs: In the backdrop of the default on a series of its coupon payments by one of the biggest names in the Non-Banking Finance Companies (NBFCs)- Infrastructure Leasing & Financial Services (IL&FS) due to which there was panic selling in the equity market which pulled the markets down, the Finance Minister Mr. Arun Jaitley said that the government is ready to ensure credit is available to Non-Banking Financial Companies and adequate liquidity is maintained/provided to the NBFCs.

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13. THREE STATES- MAHARASHTRA, KARNATAKA & TAMILNADU

ACCOUNT FOR 40% OF TOTAL RETAIL LOANS: Maharashtra, Karnataka and Tamil Nadu together account for 40% of the total retail loans in the country as on June 30, 2018. This is despite having only 20% of the total population of the country. The growth in retail advances is driven by robust economic development and urbanisation.

14. NO MORE COMMISSION FOR PSB STAFF FOR CROSS

SELLING PRODUCTS: The government has asked the Public Sector Banks (PSBs) not to pay any commission to its employees for cross-selling of products. This could discourage PSB employees from cross-selling products like retail loans, insurance and mutual funds as now banks will stop paying cash incentives, rewards and recognition. On the other hand this would mean Public Sector banks like SBI and Bank of Baroda who were till now giving commission to its staff, are at a disadvantage over Private banks who have such schemes of rewarding its staff for cross selling.

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