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QUICKLY

Moody's upgrades ratings of banks

Mumbai, March 11

Rating agency Moody's has upgraded the long-term local and foreign currency deposit ratings of Central Bank of India and Indian Overseas Bank to Ba2 from Ba3. The agency has also affirmed local and foreign currency deposit ratings of Bank of India, Canara Bank, Oriental Bank of Commerce and Union Bank of India at Baa3/P-3. "For Central Bank and Indian Overseas Bank, which are among the weakest rated state-run banks, the rating upgrade reflects the improved solvency of the banks, following the capital infusion," Moody's said on Monday. The agency estimates that both banks will achieve a common equity tier 1 of over 8 per cent by March, creating a buffer above the Basel III-mandated 7.375 per cent, which includes a minimum core capital of 5.5 per cent and a capital conservation buffer of 1.875 per cent. PTI

'Banking Trojans grew 16% in 2018'

New Delhi, March 11

Global cybersecurity company Kaspersky Lab said on Monday that 8.89 lakh of its users were attacked by banking Trojans in 2018, marking an increase of nearly 16 per cent compared to 7.67 lakh users in 2017. This kind of malware steals credentials for e-payment and online banking systems from victims, intercepting one-time passwords, and then sending the data to attackers behind the Trojan. Kaspersky said the collected data show that Russia became the most-targeted nation last year, accounting for over 22 per cent of global users attacked with banking malware. It is followed by Germany (with a share of over 20 per cent) and India (almost 4 per cent). ANI

Boost liquidity ahead of Brexit: BoE

March 11

The Bank of England is asking some UK banks to hold three times more liquid assets in the event of a market meltdown with a no-deal Brexit later this month. Some lenders must hold sufficient so-called easy-to-sell assets to withstand 100 days of severe stress instead of the usual 30 days. That's when banks suspend interbank lending. The BoE is monitoring the liquidity levels at banks daily ahead of the March 29 exit day. Lenders were also asked to model their balance sheets for the scenario where they won't be able to swap the British pound for US dollars for several days. The UK has made constructive developments in preparing for a no-deal Brexit, though the economic impact of crashing out of the European Union would still be substantial, said Bank of England Governor Mark Carney last week. BLOOMBERG

LINKING SAVINGS DEPOSIT, SHORT-TERM LOANS TO REPO

What impact will SBI move have on depositors and borrowers?

Savings deposit rate will move even lower if the RBI cuts the repo rate; lending rates on short-term loans will become cheaper

ANALYSIS

RADHIKA MERWIN

BL Research Bureau

It was two years back that SBI made the first move and cut savings deposit rate by a tidy 50 basis points. With other banks having followed suit, low-value savings deposit rate currently rules at 3.5 per cent (against 4 per cent in the past). If depositors were rattled by the move by banks, SBI's move to link savings deposit rate to repo rate effective May 1 implies more pain in a rate-easing scenario – savings deposit rate will move even lower if the RBI cuts repo rate in the coming months.

SBI has linked savings bank deposits, with balances above ₹1 lakh, to the repo rate – 2.75 per cent below repo rate. At the current repo rate of 6.25 per cent, this works out to 3.5 per cent. While this implies that there will be no immediate impact for depositors, if the RBI cuts repo rate by 25 bps at its next policy in April, savings deposits with SBI will fetch a lower 3.25 per cent.

On the other hand, SBI has also linked cash credit accounts and overdrafts, with limits above ₹1 lakh, to the repo rate. Hence, borrowers will gain when the RBI cuts the repo rate, as lending rates on these short-term loans will become cheaper.

On other variable rate loans such as home loans or corporate loans, too, lending rates should move lower as SBI's cost of funds will come down, forcing an MCLR cut. There is no denying that SBI linking savings deposit rates with repo rate will hurt depositors in a rate-easing scenario. But the impact may not be much in absolute terms.

Consider this. On a ₹10-lakh deposit, RBI's 25 basis point cut will imply a loss of ₹2,500 in annual interest, if savings deposit rate moves from 3.5 per cent to 3.25 per cent. On a ₹1-crore deposit, the impact will be higher – a loss of ₹25,000 on interest.

Hence, most depositors will not see a big impact of lower savings deposit rate. Of course, frequent and faster cuts could hurt in the short term. But importantly,

SBI's move will bring in more transparency in the way savings deposit rates are fixed.

Interest on savings account was deregulated in October 2011. But nearly all banks stuck to offering a 4 per cent rate, even in rising rate cycles. This cartelisation of sorts was broken in July 2017 when SBI cut the savings deposit rate by 50 bps, and other banks followed suit.

SBI's move to link the savings deposit rate to the repo rate could change the opacity and rigidity in savings rate. Hence, in a year or two, when the RBI starts to increase the repo rate, SBI's savings deposit rate will also move up, benefiting depositors.

Borrowers' gain

SBI has linked cash credit accounts and overdrafts with limits above ₹1 lakh to the repo rate – 2.25 per cent above repo rate. Hence, a 25 bps cut in repo rate would imply immediate respite to such borrowers.

For other borrowers, too, a rate cut by the RBI could lead to faster reduction in lending rates than in the past. Why? For SBI, about 37-40 per cent of deposits are savings deposits, of which, a chunk are above ₹1 lakh. This implies that about 30-35 per cent of deposits will get repriced with changes in repo rate. Hence, a 25 bps repo rate cut could result in 6-9 bps reduction in benchmark MCLR. Lending rates on loans such as home loans and corporate loans linked to MCLR would fall faster, benefiting borrowers.

Will other banks follow suit?

RADHIKA MERWIN

BL Research Bureau

When the RBI proposed the use of external benchmarks to peg lending rates of retail/personal loans and loans to micro and small enterprises, banks were a wee bit worried on how it would impact their earnings. SBI's move to link the savings deposit rate to repo rate has helped ease that concern.

With about 30-35 per cent of SBI's deposits getting repriced with RBI's every rate action, pegging lending rates to external benchmark, such as repo rate, will not lead to as much earnings volatility as expected earlier.

SBI has also linked cash credit accounts and overdrafts with limits above ₹1 lakh to the repo rate. With these short-term loans accounting for about 20-25 per cent of loans, earnings pressure, on account of faster repricing of these loans, will be minimal. The trickle-down benefit of lower savings deposit rate in the event of a rate cut by the RBI will flow into the bank's benchmark lending rate, MCLR, impacting other retail and corporate loans, too.

The million dollar question is: Will other banks follow in SBI's footsteps? There is no denying that SBI's move to reprice deposits, alongside loans, has eased the concern on earnings volatility that would have come when banks moved towards external benchmarks.

This is because when lending rates are pegged to external benchmarks, it implies faster reset of loan rates. This also means banks will have to create a portfolio of deposits and loans with a balanced mix across tenors such that the overall asset-liability gaps are managed well not only to reduce liquidity mismatches, but also to mitigate earnings volatility.

While one way to do this is to take more short-term deposits that get repriced faster, it could lead to liquidity gap. The other way is to develop floating rate fixed deposits, with which banks have had little success until now.

By linking savings deposit rates to external benchmark, SBI has sought to resolve the dilemma. For large banks that have a sizeable deposit base, savings deposits form 25-30 per cent of deposits.

Repricing them faster can lead to notable gains on cost of funds in a rate-cut scenario, aiding better transmission to lending rates without hurting earnings much. On the other hand, fixed deposits that are about half of banks' deposits are a little more complex to reprice frequently, and would also hurt depositors parking large sums for drawing regular income.

Wait-and-watch mode

Given that SBI's move is beneficial both to the bank and borrowers, will other banks also follow suit?

PSBs that are facing margin pressure and being nudged to adopt external benchmarks for loans may follow SBI and link savings deposits to the repo rate.

Private banks, however, may wait and watch. This is because credit growth for private sector banks has been healthy at 14-15 per cent, while deposits have been growing at single-digit (at best 10 per cent). It is unlikely that they will reprice savings deposits rates in a hurry as the flight of deposits may hurt them more.

Public sector banks have relatively lower pressure on funding resources. With rates on their fixed deposits significantly lower than that offered by private banks, tinkering with savings deposit rates may be a better option.

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Bharti AXA adds 10,000 insurance advisors and 50 branches in FY19

KR SRIVATS

New Delhi, March 11

Bharti AXA Life Insurance is on an expansion mode and has brought on board 10,000 more insurance advisors, besides adding 50 new branches this fiscal, a top official said.

The aggressive expansion drive is part of the company's overall strategy to strengthen its operations and enhance distribution footprint across the country. The overall advisor count has now grown to 38,000 from 28,638 as on March 31, 2018.

The overall branch network has grown to 236 branches pan-India in the current financial year, up 27 per cent from 186 branches as on March 31, 2018.

"We have embarked upon our most-aggressive expansion drive in recent years, and added close to 10,000 insurance advisors and 50 new branches during the current financial year. We plan to create a large pool of productive agents, strengthen our existing advisor base, and reach out to every nook and corner of the country. This will strengthen our distribution bandwidth and help in new customer acquisition," said Vikas Seth, Managing Director and Chief Executive Officer, Bharti AXA Life Insurance.

He said the company is focussing on Tier II and Tier III cities for branch expansion and insurance-agent hiring, and it plans to continue its expansion spree in the next financial year with a focus on profitable growth. Bharti AXA Life, a joint venture between Bharti Enterprises and French insurance behemoth, recorded 40 per cent growth in new business premium at ₹617 crore during the April-December period of 2018-19 compared to ₹442 crore in the previous year.

NHB guidelines for housing finance firms do not address credit risk and liquidity issues: Moody's

OUR BUREAU

Mumbai, March 11

While the National Housing Bank's proposed guidelines to tighten capital adequacy and leverage norms of housing finance companies (HFCs) are credit-positive, they do not address issues regarding the key credit risk of these companies, funding, and liquidity, said Moody's Investors Service.

Credit-positive

The proposed guidelines are credit-positive because they will limit HFCs' credit growth and cap their maximum exposure to the debt capital markets, the global credit rating agency said in a study. Moody's said volatility in the debt financing markets is a key risk for HFCs because short-term funding is increasing and is used to fund long-dated assets.

Additionally, these companies maintain very little liquidity backup.

Since September 2018, HFCs' asset-liability mismatch has been exacerbated after IL&FS defaulted on certain debt market obligations.

Following the default, liquidity in India's debt market tightened sharply, leading to increased risk that HFCs were unable to refinance maturing obligations, which was reflected by a sharp increase in their commercial paper yields.

Although HFCs have, since September 2018, slowed loan growth to conserve liquidity, the contagion effect of liquidity issues can be severe because these companies are significant borrowers from the banking system, cautioned Alka Anbarasu, V-P-Sr Credit Officer, and Jason Sin, Associate Analyst, Moody's Investors Service. Rated banks' exposure to HFCs was between 3 per cent and 5 per cent of total loans as of December 31, 2018.

Still, NHB's proposed guidelines will benefit HFCs and lenders to HFCs, particularly commercial banks, because the guidelines will help limit credit growth, they said.

Maximum leverage

Under the proposed guidelines, HFCs' minimum capital adequacy requirement will gradually increase by one percentage point annually to 15 per cent by March 2022, from 12 per cent as of March 2019.

Additionally, the maximum leverage, calculated as total debt plus deposits as a percentage of net-owned funds, will gradually decline by one percentage point annually to 12 times by March 2022 from 16 times as of March 2019.

Bombay HC to hear Kotak Mahindra plea on RBI's promoter-shareholding norms today

SURABHI

Mumbai, March 11

The Bombay High Court will take up for hearing the writ petition by private sector lender Kotak Mahindra Bank on the issue of promoter-shareholding norms by the Reserve Bank of India on Tuesday.

The court had, on January 17, adjourned the hearing after the RBI senior counsel Venkatesh Dhond sought more time to file the affidavit in response to the writ petition.

The case is being closely followed as it is perhaps for the first time that a bank is approaching the courts on an RBI directive. Many bankers and experts, who did not wish to be named, see it as a direct challenge to the regulator.

At the core is the contentious issue of diluting the promoter shareholding in the bank to 20 per cent by December 31, 2018, from close to 30 per cent at present. The RBI had said the issuance of Perpetual Non-Convertible Preference Shares (PNCPS) by the lender in August last year did not meet its requirements for diluting the shareholding.

Kotak Mahindra Bank had filed the writ petition on December 10 last year on the Banking Regulation Act, and had sought validation on whether its issuance of PNCPS met the regulatory requirements. It is being heard by a two-judge bench of the Bombay High Court comprising justices BP Dharmadhikari and Sarang V Kotwal. It has not given any interim relief to Kotak Mahindra Bank, and had refused to grant a stay on the December 31, 2018, deadline set by the RBI.

Though there has been speculation that covers a mutually acceptable resolution, including an out-of-court settlement, both Kotak Mahindra Bank and RBI have remained silent on the issue and said the matter is sub-judice.

Meanwhile, pressure is mounting on the RBI to review the promoter shareholding norms, although it is unlikely to look into the issue at present.

Another private sector lender, Bandhan Bank, recently merged with Gruh Finance, which has been seen as a means to meet the RBI's promoter shareholding norms.

On Monday, shares of Kotak Mahindra Bank gained 0.88 per cent to close at ₹1,248.85 apiece on the BSE.

Rupee gains strength despite strong dollar

CURRENCY CALL

GURUMURTHY K

BL Research Bureau

The Indian rupee is gaining momentum. The currency strengthened in the past week, breaking above the resistance at 70.50, and tested the psychological level of 70 as expected. Surprisingly, the rupee strengthened in the past week, despite a sharp rise in the dollar index. The currency closed at 69.88 on Monday, up 1.47 per cent for the week.

Supporting factors

Oil prices continuing to trade stable in a sideways range, and foreign money inflows, especially into the equity segment, seem to be aiding the rupee remain strong. Brent Crude Oil is retaining its $64-$68 per barrel sideways range. It is likely to remain range-bound for some more time, which could continue to provide support to the rupee. Though foreign portfolio investors (FPIs) have been selling India's debt, a strong inflow into the equity segment is helping the rupee gain ground. FPIs have poured about $3.2 billion into the equity segment since the beginning of February. The currency market is likely to remain volatile this week, as Britain is headed for a series of voting with regard to Brexit. If the voting results are in favour of UK Prime Minister Theresa May, the euro and pound could surge against the US dollar. This, in turn, could drag the dollar index sharply lower, and trigger a sharp rally in non-dollar currencies like the Indian rupee.

The rally in the dollar index lost pace after the weak US jobs data release on Friday. The index came off slightly from the high of 97.70. It is currently trading at 96.35. As long as it trades below 97.7, a fall to 97 or even 96.6 is possible in the near term. Such a fall in the dollar index can help the rupee retain its strength in the coming days.

Rupee outlook

The outlook continues to remain positive for the Indian rupee. The currency has a key support around 70.20. As long as above this support, there is a strong likelihood of it strengthening towards 69.5 and 69.45 in the short term. Inability to breach the 69.50-69.45 resistance zone can trigger a corrective fall to 70 thereafter. However, the bias will continue to remain positive. An eventual break above 69.45 will increase the likelihood of the rupee extending its up move towards 69.2 and 69.1 against the dollar in the coming weeks.

IRDAI's inspection observing discrepancies in US GIC pertains to accounting

Trading levels for the week

NSE futures	LTP	S1	S2	R1	R2	Trade recommendations
USD-INR	70.02	69.50	69.00	70.60	71.00	Outlook is bearish. Go short and also accumulate on rallies
EUR-INR	78.87	78.00	77.35	79.50	80.00	Downtrend gains momentum. Initiate fresh short positions
GBP-INR	91.18	90.90	89.50	91.50	92.50	Support ahead. Go short only if the contract breaks below 90.90
JPY-INR	63.04	62.75	62.30	63.80	64.50	Wait for rallies and go short if the contract reverses lower from 63.8

LTP: Last Traded Price; **S1,S2:** Support; **R1,R2:** Resistance

Note: In a buy recommendation, the resistance would be the target and the nearest support would be the stop loss; in a sell recommendation, the support would be the target and the nearest resistance would be the stop loss. The recommendations are based on technical analysis. There is a risk of loss in trading.

Re-appointment of ON Singh as Universal Sompo chief 'on hold'

PALAK SHAH

Mumbai, March 11

The Insurance Regulatory and Development Authority of India (IRDAI) has put on hold the re-appointment or extension of ON Singh as Non-Executive Chairman of Universal Sompo General Insurance Company (USGIC).

Governance lapse

The tenure of Singh, a key founding member of the company, ended in January, but his role is under a cloud. *BusinessLine* had reported on February 21 that an internal inspection by IRDAI had found instances of corporate governance lapses at the company, which mainly involved Singh.

IRDAI wants to clear the air on several issues of related-party transactions before permitting Singh's re-appointment, a source said. Also, the regulator will inspect Risk Care Insurance, a broker empanelled with USGIC, as it is promoted by the close family members of Singh and had several instances of cheque-bouncing worth crores.

IRDAI usually conducts an inspection of insurance brokers every two or three years, but none was conducted on Risk Care in nearly a decade, the source said.

In year 2016-17, when it found that 4,059 premium collection cheques had bounced and that 1,124 belonged to a single broker, Risk Care.

Singh, whose wife, daughter, son and daughter-in law are among the shareholders of Risk Care, was the Managing Director of Sompo up to late 2016. Singh is also a director at First Advantage Finance & Investments, which holds 4.39 per cent stake in Risk Care.

In addition, payments made by Sompo to other vendors, including Adept Information Services, Mindpool Management Solutions, Krishi Care & Management Services, and Principle Security and Allied Services, too, had links with the family members of Singh, the IRDAI report shows.

Some companies had common directors and were registered at the same address in Mumbai to whom payments worth crores were made by Sompo. Even vendors for housekeeping and IT shared a common address.

When contacted, Sompo said they had no information from the IRDAI on the extension of Singh's tenure being put on hold. It also denied any related-party transactions or conflict of interest as adequate disclosures were made.

Settlement of health-cover claim must improve, says IRDAI chief

OUR BUREAU

New Delhi, March 11

Insurance regulator Insurance Regulatory and Development Authority of India (IRDAI), on Monday, asked health insurers and health providers to raise the bar on "claim settlements", stating that a disproportionately large number of complaints to the regulator are related to health policies.

Quick settlement

Insurance companies and health providers must practice the highest standards of ethics and ensure that claims are settled quickly and grievances minimised, said Subhash Chandra Khuntia, Chairman, IRDAI, at a FICCI conference on health insurance. Kuntia also urged health insurance companies to keep insurance policy wordings simple and understandable to the general public.

"This is one major area of concern. Many people realise afterwards at the time of making claim that certain things are excluded and feel they could have bought other products. We need simple products for the general public," he said.

Misunderstanding should also be avoided when it comes to insurance policies, he said. "There is a huge potential for growth. We must grow sustainably, and we must grow in such a manner that all stakeholders benefit together. We cannot think of quick gain at the expense of somebody else. Clients must benefit, otherwise businesses will not sustain," he added.

Affordability issues

Kuntia also felt that health insurers should look into the affordability of policies. "We need to change the landscape of health provision in the country so that availability of health services to common people can be realised," he said.

Health insurance industry should promote wellness in a big scale through incentives. "If engagement with policyholders gets intense, we should be able to make a dent in the health situation in the country," he said.

Standard Life to sell 3.47% stake in HDFC Life Insurance

OUR BUREAU

Mumbai, March 11

Standard Life Mauritius is set to sell 3.47 per cent stake in HDFC Life Insurance through an offer-for-sale.

Standard Life (Mauritius Holdings) 2006 Ltd is one of the promoters of the private sector insurer with 29.23 per cent stake as on December 31, 2018. "We hereby notify that the seller proposes to sell up to seven crore equity shares (representing 3.47 per cent of the total issued and paid-up equity share capital of the company) on March 12, and on March 13," HDFC Life said in a regulatory filing on Monday.

It can sell 2.95 crore more shares as part of the transaction. At a floor price of ₹ 357.5 apiece, the stake-sale could fetch as much as ₹3,500 crore (including the green shoe option). The OFS will be open for non-retail investors on Tuesday and for retail investors on March 13. Significantly, the insurer had changed its name from HDFC Standard Life Insurance to HDFC Life Insurance in January this year.

Shares of the insurer fell 0.51 per cent and closed at ₹389.80 apiece on BSE on Monday. The insurer had come out with an IPO in November 2017, which comprised a 9.55 per cent stake sale of HDFC and 5.42 per cent holding of Standard Life.