

19 ECONOMY

SENSEX: 38,214.47 ▲ 87.39 NIFTY: 11,341.15 ▲ 36.10 NIKKEI: 21,798.87 ▲ 246.89 HANG SENG: 26,521.85 ▲ 213.41 FTSE: 7,218.03 ▼ 29.05 DAX: 12,446.35 ▼ 65.30

*International market data till 1900 GMT

POLICY WATCH DEPOSIT INSURANCE

In 11 yrs, insured deposits' share of total value falls from 60% to 28%

SUNNY VERMA
NEW DELHI, OCTOBER 14

THE FAILURE of Punjab and Maharashtra Co-operative (PMC) Bank has reignited the debate on the low level of insurance coverage for deposits held by public in banks. In an event of a bank going bust in India, depositors get a maximum of Rs 1 lakh per account as insurance cover, even if their deposits far exceed Rs 1 lakh. While depositors holding less than Rs 1 lakh of deposits in a bank are covered by the deposit insurance, depositors holding more than Rs 1 lakh in an account have no legal remedy in case of the collapse of a bank.

Currently, the Deposit Insurance and Credit Guarantee Corporation (DICGC) — a fully owned subsidiary of the Reserve Bank of India — provides for cover of Rs 1 lakh per depositor for deposits in commercial banks, regional rural banks, local area banks (LABs) and cooperative banks, and rest of the deposit amount is forfeited in the rare event of a bank failure.

Over the years, the level of insured deposits as a percentage of assessable deposits has declined from a high of 60.5 per cent in 2007-08 to 28.1 per cent in 2018-19, as per DICGC data. "Given this backdrop, there is a dire need to revisit the insurance coverage of bank deposits. In particular, the current upper limit of Rs 1 lakh per depositor has outlived its shelf life and there is a need to revisit it," State Bank of India's group chief economist Soumya Kanti Ghosh said in a recent note.

At the end of March 2019, the number of registered insured banks with DICGC stood at 2,098 — comprising 103 commercial banks, 1,941 co-operative banks, 51 regional rural banks and three LABs. DICGC last revised the deposit insurance cover to Rs 1 lakh on May 1, 1993, up from Rs 30,000 cover from 1980 onward. DICGC charges 10 paise per Rs 100 of deposits held by a bank. The premium paid by the insured banks to the Corporation is required to be borne by the banks and not to

be passed on to the depositors. However, the Centre seems to be exploring the possibility of raising the deposit insurance limit in the wake of the PMC Bank scam. "Our team is going through such a proposal. There's a committee which is looking into it," Finance Minister Nirmala Sitharaman said last Thursday.

Any rise in insurance cover is protested by scheduled commercial banks, who typically cross subsidise failures of cooperative banks and other small banks.

"As of now there is no differential premium pricing in India. Premium is collected on the amount of deposits held by banks at the beginning of the fiscal year. Since schedule commercial banks have large deposits and almost no instance of bank failure in recent years, they end up paying much more on insuring deposits than the cooperative and local banks. Ultimately, they end up covering default risks of cooperative banks," a senior banker told *The Indian Express*, adding that the regulator should look at risk-based differential premium pricing.

As per DICGC data, commercial banks paid total premium of Rs 11,190 crore in 2018-19, while cooperative banks paid premium of Rs 850 crore to cover deposits against default risk.

As for cooperative banks, only 44.5 per cent of their assessable deposits were covered in 2018-19, while for commercial banks this ratio was 25.7 per cent. Cooperative banks collectively account for Rs 8,49,200 crore worth of assessable deposits — of which only Rs 3,77,500 crore worth of deposits were insured.

As of March 31, 2019, DICGC has paid a cumulative amount of Rs 295.90 crore towards claims in respect of 27 commercial banks since the inception of deposit insurance in 1962. The cumulative amount of claims paid in respect of 351 cooperative banks (which failed/amalgamated or liquidated) since the start of the deposit insurance scheme in 1962 amounted to Rs 4,822.30 crore. This includes Rs 37 crore of claims paid in FY19 for 15 failed cooperative banks.

PROPORTION OF INSURED DEPOSITS AND ACCOUNTS

SUBJECT	March 31, 2019	March 31, 2018
Total No. of Accounts (million)	2,174	1,940.9
Fully Protected No. of Accounts	2,000	1,775
Percentage of Protected Accounts	92%	91.4%
Aggregate Deposits (Rs billion)	1,20,051	1,12,020
Insured Deposits	33,700	32,753
Percentage of Insured Deposits	28.1%	29.2%

Source: DICGC

WPI INFLATION EASES TO 0.33% FROM 1.08% IN AUGUST

Costlier food items push retail inflation to 3.99% in September

ENSECONOMICBUREAU
NEW DELHI, OCTOBER 14

RETAIL INFLATION in September rose to a 14-month high of 3.99 per cent, primarily on account of an increase in food prices and base effect, government data released Monday showed.

Consumer Food Price Index (CPI) inflation rate in September crossed the headline number, increasing to the highest level in over three years to 5.11 per cent in September primarily driven by uptick in vegetables prices, a possible fallout of the floods in various states.

Inflation rate for meat & fish, vegetables and pulses jumped to 10.3 per cent, 15.4 per cent and 8.4 per cent, respectively, in September from 8.5 per cent, 6.9 per cent and 6.9 per cent in the previous month. Vegetables and pulses itself contributed 76.4 per cent of the increase in retail inflation in September over the previous month.

Urban areas recorded higher food inflation than rural areas, with urban food inflation being recorded at 8.76 per cent in September from 7.07 per cent last month, while rural food inflation rose to 3.22 per cent in September from 0.85 per cent last month.

At 3.99 per cent, the overall retail inflation rate stayed within

EXPLAINED

Fresh crop arrivals in market may prod RBI to cut rates

THE RESERVE Bank had said it expected inflation to stay below its medium-term target of 4 per cent (with a band of +/- 2 per cent) through to the early months of the financial year 2020-21, while lowering its economic growth forecast to 6.1 per cent for the current year ending March 2020, from an earlier estimate of 6.9 per cent.

Analysts believe that arrival of the new crop in the market could ease food prices and so calm inflation, providing the central bank with the headroom to cut rates further.

the Reserve Bank of India's (RBI's) medium-term target of 4 per cent (with a band of +/- 2 per cent). For October-March, RBI has projected CPI inflation rate at 3.5-3.7 per cent.

While some economists said the RBI will continue with its accommodative stance, others were of the view that the rise in inflation print would lead to a pause in the rate cut cycle in the next meeting in December. Food inflation though may fall below 4 per cent by the end of the December quarter as winter supplies start trickling in. "While food inflation did record a broad-based increase in September 2019, the

primary driver of the uptick was vegetables, a fallout of the flooding in various states. As vegetable prices normalise over the next two months, particularly with the seasonal arrival of winter supplies, food inflation may recede below 4 per cent by the end of this quarter. Nevertheless, today's data serves as a reminder that short lived shocks in food prices can quickly translate into a sharp rise in the headline retail inflation," Aditi Nayar, principal economist, ICRA Ltd said.

The core CPI inflation, which is the non-food, non-fuel inflation, eased to a 26-month low of 4.2 per cent in September.

Wholesale price index-based inflation eased to over three-year low of 0.33 per cent in September as against 1.08 per cent in August due to fall in prices of non-food articles, separate set of government data released on Monday showed. The rate of price rise for the food articles remained broadly flat at 7.47 per cent during September.

Manufactured product prices, which makes up for 64.23 per cent of the weight of the WPI, declined 0.42 per cent on the back of a drop in prices of basic metals, chemicals and chemical products and textiles. Fuel and power prices declined 7.05 per cent due to lower prices of LPG, petrol and high speed diesel.

Within primary articles, wholesale prices of onions saw the highest increase, growing 122.40 per cent in September over the same month in 2018.

"What we are seeing essentially is the slowdown is being caused by fuel products and manufacturing products ... When manufactured product prices are low, it is actually reflective of the loss of pricing power for the corporate sector.

"Manufactured goods prices coming down is only reflective of what the corporate results will be like. They will tend to be subdued," CARE Ratings chief economist Madan Sabnavis said.

‘Tenancy law to harmonise tenant-landlord relationship’

The proposed model tenancy law will be instrumental in institutionalising rental housing in India, the report ‘Institutionalising the Rental Housing Market in India – 2019’ by Knight Frank and Khaitan & Co said

Draft Model Tenancy Act, 2019: Announced by the Centre in July, the Act proposes to create a legal framework to bring harmony to the landlord-tenant relationships and balance the scale for both the parties

Creation of large purpose-built rental stock: Institutionalisation of rental housing through this legislation will help in creating large purpose-built rental stock as well as attract investments\

Lack of clarity: There are several areas from the perspective of both the landlord and tenant where



the Act provides no or limited clarity, which can create challenges in its implementation

~11.09 million: Number of vacant urban

21.72 million: Number of rented urban households in India

76.5%: Total share for below mentioned cities in overall rented households

Tamil Nadu:	16.5%
Andhra Pradesh:	13.8%
Maharashtra:	13.5%
Karnataka:	11.3%
Gujarat:	6.1%
West Bengal:	5.9%
Uttar Pradesh:	5.1%
NCT of Delhi:	4.3%

223 million: Number of urban residents expected to be added to cities by 2031, which will necessitate development of rental housing market

Total to buy 37.4% stake in Adani Gas for ₹5.7K cr

ENSECONOMICBUREAU
MUMBAI/AHMEDABAD, OCTOBER 14

FRENCH ENERGY major Total SA has proposed to acquire a 37.4 per cent stake in Adani Gas Ltd — the firm that retails gas to automobiles and households — for an estimated Rs 5,700 crore.

Total will first make an open offer to buy a 25.2 per cent stake in Adani Gas. Depending upon the success in the open offer, it will buy a stake from Adani to take its holding to 37.4 per cent in the company. Adani family holds 74.8 per cent stake in Adani Gas and will dilute shares to the public to bring down its holding to 37.4 per cent, the two firms said in separate statements.

Adani Family and Total shareholders will ultimately hold 37.4 per cent each and public shareholders will hold remaining 25.2 per cent. Adani family will sell some stake in the open market to meet the listing norm of keeping public holding at 25 per cent.

Adani Gas is targeting to set up 1,500 CNG stations to retail gas to automobiles and piped cooking gas to 6 million households. It will also set up 1,500 petrol pumps over 10 years. "Taking into account the divestiture of the Group's interest in Hazira terminal in early 2019, the establishment of this partnership on gas in India represents a net acquisition cost for Total of approx \$ 600 million over 2019-20," Total said.

"The partnership will derive significant synergies between

Adani Family and Total shareholders will ultimately hold 37.4 per cent each and public shareholders will hold remaining 25.2 per cent

Adani's capabilities of developing world class assets and Total's global best practices as well as leveraging business synergies across LNG, Fuel Retail and City Gas Distribution," Adani Group chairman Gautam Adani said in a statement.

Adani said both partners would make significant investments in the next 10 years across the businesses to develop India's gas infrastructure, distribution, marketing businesses with presence in over 15 states reaching out to 7.5 per cent of the country's

population and setting up global scale and world class LNG, gas distribution and fuel retail infrastructure in India.

Total, which exited a JV with Royal Dutch Shell in a 5 million tonne liquefied natural gas (LNG) import terminal at Hazira in Gujarat in August 2018, had in October last formed a 50:50 JV for two LNG import terminals of Adani on the east and west coast of India as well as for setting up of 1,500 petrol pumps in the country over 10 years.

The French firm is the latest en-

ergy major seeking to expand its presence in India, which is the world's third-largest and the fastest-growing energy consumer. In August, Reliance Industries said Saudi Arabian Oil Co will buy 20 per cent of its oil-to-chemical business at an enterprise value of \$75 billion. As part of this partnership, Total will bring its LNG and retail expertise and will supply LNG to Adani Gas. Total and Adani will also establish a joint venture to market LNG in India and Bangladesh. "The natural gas market in India ... is an attractive outlet for the world's second-largest LNG player that Total has become," said Patrick Pouyanné, chairman-CEO, Total. India has set the ambitious target of increasing the share of natural gas in its energy mix to 15 per cent by 2030.

The downgrade comes days after the Reserve Bank of India (RBI) rejected a proposed merger of Indiabulls Housing with Chennai-based Lakshmi Vilas Bank (LVB). The housing finance company (HFC) is among the entities which took the hardest knock from a liquidity crunch that first emerged in September 2018 after defaults by the Infrastructure Leasing & Financial Services (IL&FS) Group.

Even as liquidity conditions eased in May this year, several HFCs and other non-bank lenders have been unable to raise money from banks and mutual funds in an environment of heightened risk aversion. **FE**

Moody's cuts Indiabulls Housing Finance to B2 from Ba2; outlook remains negative

ENSECONOMICBUREAU
MUMBAI, OCTOBER 14

RATING AGENCY Moody's Investors Service on Monday downgraded the corporate family rating (CFR) and the foreign-currency senior secured rating of Indiabulls Housing Finance to B2 from Ba2, citing the company's ongoing challenges in terms of accessing funds.

Moody's also downgraded Indiabulls' foreign and local currency senior secured medium-term note (MTN) programme ratings to (P)B2 from (P)Ba2. The outlook on all ratings, where applicable, remains negative, the

Firm seeks Sebi nod for buyback

New Delhi: Indiabulls Housing Finance on Monday said its board intends to go for a buyback of shares and will take final decision in this regard after receiving concurrence from Securities and Exchange Board of India (Sebi). **PTI**

rating firm said in a statement. This means that Moody's does not expect the ratings to be upgraded.

FINANCE MINISTER ON PMC BANK CASE

FM: Have urged RBI Governor to expedite customer payments



Finance Minister Nirmala Sitharaman during a meeting with heads of public sector banks in New Delhi, Monday. **PTI**

ENSECONOMICBUREAU
NEW DELHI, OCTOBER 14

PUBLIC SECTOR banks have disbursed loans worth Rs 81,781 crore in loan distribution programmes organised during October 1-9, Finance Secretary Rajiv Kumar said Monday. Of the Rs 81,781 crore, new term loans worth Rs 34,342 crore have been disbursed, Kumar told reporters following a review meeting with heads of public sector banks held by Finance Minister Nirmala Sitharaman. The second credit outreach programme would be organised from October 21-25.

Sitharaman said there was sufficient demand for retail loans and banks have enough liquidity to service customer needs. On the issue of withdrawal restrictions at Punjab and Maharashtra Co-operative (PMC) Bank, she said the Finance Ministry is closely monitoring the situation and has been in discussions with Reserve Bank of India Governor Shaktikanta Das, who has assured that customers' interest will be protected.

"The RBI Governor has assured me that he will keep the interest of customers in mind, and at the earliest try resolve it ... I had discussion with RBI Governor this afternoon and I am closely monitoring it," she said.

Earlier this month, the central bank slapped restrictions on PMC Bank, a leading cooperative bank headquartered in Mumbai, appointed an administrator and superseded its board of directors, sending shock waves among thousands of its depositors.

The bank was funding a clutch of companies, mainly in the troubled real estate sector, led by HDIL. Commercial banks have already declared HDIL a defaulter.

On August 20, the National Company Law Tribunal (NCLT) admitted an insolvency plea moved by Bank of India against HDIL in connection with a Rs 522-crore loan default.

PMC Bank allegedly extended 70 per cent credit of out of its Rs 9,000 crore in total advances to HDIL through fraudulent means.

"Government has been on its toes in terms of bringing the assets of these promoters (indulged in fraud) of the bank... process will not suffer for want of enough assets which can eventually help paying back customers. In fact, my appeal to (RBI) Governor this afternoon was if there are so many assets, is there anyway RBI can expedite in terms of paying to customers who are genuinely suffering," Sitharaman said.

She also said the Centre could consider raising deposit guarantee limit from the existing Rs 1 lakh. If it happens it will be through Parliament, she added. The Deposit Insurance and Credit Guarantee Corporation insures each depositor in a bank up to a maximum of Rs 1 lakh for both principal and interest as on the date of liquidation/cancellation of the affected bank's licence or from the date of amalgamation/merger.

The Finance Minister said she had discussion with Das over whether the deposit guarantee of Rs 1 lakh can be released instantaneously. But the RBI Governor informed that the deposit guarantee is released only after the bank is closed and not when it is a going concern, which is the case for PMC Bank, she said.

Sitharaman further said that banks are working to ensure that retail credit is extended as per their prudential guidelines. In order to ensure liquidity for small businesses, she said that banks have been asked to provide bill discounting facility to the MSME sector against payments due from the large corporates.

According to returns filed by the large corporates to the Ministry of Corporate Affairs, around Rs 40,000 crore is due to the MSME sector, and the government is working to ensure that MSMEs get their dues ahead of Diwali festival on October 27.

HDFC cuts home loan rate by 10 bps

ENSECONOMICBUREAU
MUMBAI, OCTOBER 14

MORTGAGE FIRM HDFC Ltd Monday cut its benchmark lending rate by 10 basis points (bps), lowering interest rate for existing as well as new borrowers. The new rate will be effective from October 15, an HDFC statement said.

HDFC has reduced the retail prime lending rate (RPLR) on housing loans, on which its adjustable rate home loans (ARHL) are benchmarked, by 10 bps, it said. The new rates for the salaried class will now range between 8.25 per cent and 8.65 per cent depending on the loan amount.

Last week, State Bank of India slashed the interest rate on savings bank deposits (with balances up to Rs 1 lakh) by 25 bps from 3.50 per cent to 3.25 per cent with effect from November 1, 2019.

The state-owned lender also slashed its retail term deposit and bulk term deposit interest rates by 10 bps and 30 bps, respectively, for '1 year to less than 2 years' tenor with effect from October 10, 2019. The bank also reduced the MCLR (marginal cost of funds based lending rate) by 10 bps, making home and personal loans cheaper for customers.

Earlier this month, the Reserve Bank of India cut the repo rate for the fifth time this year by 25 bps to 5.15 per cent — its lowest level in nine years — and signalled more easing as it looks to support the economy, which is growing at its slowest pace in six years.