

## QUICKLY



**Not so 'green'** Jens Weidmann, President, Deutsche Bundesbank, delivers a speech at a conference in Frankfurt on Tuesday. He warned that giving preference to green bonds when conducting quantitative easing policies risks overburdening central banks, which is likely to endanger their independence. **BLOOMBERG**

## National CSR awards presented

Mumbai, October 29

A host of players in the financial services space, including Edelweiss Financial Services Ltd (EFSL), CRISIL Ltd, Bharat Financial Inclusion Ltd (BFIL), Power Finance Corporation Ltd (PFC), Equitas Holdings Ltd (EHL), HDFC Bank, IndusInd Bank, and India Infrastructure Finance Company Ltd (IIIFCL) were presented the first national corporate social responsibility (CSR) awards by the President of India, Ram Nath Kovind, on Tuesday. EFSL was presented the 'Corporate Award for Excellence in CSR'; CRISIL and BFIL were presented the award for 'CSR in Challenging Circumstances'; PFC and EHL were presented the award for 'Contribution to the National Priority Areas'. The remaining entities received 'Honourable Mentions' in different award categories. **OUR BUREAU**

## RBI imposes penalty on two UCBs

## OUR BUREAU

Mumbai, October 29

The RBI has imposed monetary penalties aggregating ₹1.25 crore on two Maharashtra-based urban co-operative banks (UCBs) – ₹1 crore on Janata Sahakari Bank and ₹25 lakh on Jalgaon Peoples Co-operative Bank.

The central banksaid monetary penalty has been imposed on Pune-based Janata Sahakari Bank as its statutory inspection of the bank with reference to its financial position as on March 31, 2018, revealed non-compliance with directions issued by it on income recognition and asset classification norms,

management of advances and exposure norms, and statutory other restrictions and issuance of ATM-cum debit cards. In the case of Jalgaon People's Co-operative Bank, the RBI said its statutory inspection of the bank with reference to its financial position as on March 31, 2018, revealed non-compliance with RBI directions on IRAC norms and management of advances. In both cases, the RBI said that its action is based on deficiencies in regulatory compliance, and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank with its customers.

## + ICICI Bank: Is the worst over on the asset quality front?

## Q2 COMMENT

## RADHIKA MERWIN

BI, Research Bureau

For ICICI Bank, much like its peer Axis Bank, quarterly slippages and pace of addition to stressed book have been in focus over the past several quarters. But ICICI Bank has delivered healthy core performance with a steady decline in bad loan book over the past few quarters.

In the latest September quarter, the bank saw a healthy 16 per cent growth in domestic loans, driven by 22 per cent growth in retail loans, leading to a strong 25.5 per cent growth in core net interest income.

Since the September quarter of last year, the bank's bad loan book has been shrinking, while provision cover has gone up substantially.

As of September 2019 quarter, ICICI Bank's bad loans stood at ₹45,639 crore, or 6.37 per cent of loans (against 8.54 per cent a year ago). While

healthy core performance and falling slippages lend comfort, there are other trends that could weigh on earnings in the coming quarters.

One, ICICI Bank's BB and below-rated corporate and SME book is still large at ₹16,074 crore as of September 2019 quarter. In fact, there has been a 5 per cent sequential increase in this stressed book in the September quarter. Two, recoveries are still low, while write-offs remain elevated.

Three, growth in retail loans in recent quarters has been led by unsecured segments such as personal loans and credit cards. The risk in this portfolio will need a watch. As such, retail NPAs have gone up notably over the past year.

Hence, unless there is a strong uptick in recoveries and significant reduction in the stressed book, the stock may not get re-rated significantly.

The sustainability of strong core performance, moderation in slippages, and high

## Draghi quits ECB with final plea for fiscal action ...

## BLOOMBERG

October 29

Mario Draghi made one last plea for euro-zone fiscal support as he signed off from the European Central Bank presidency in a ceremony attended by the leaders of the bloc's biggest economies.

Speaking in front of German Chancellor Angela Merkel, French President Emmanuel Macron and Italian President Sergio Mattarella, as well as his successor Christine Lagarde, Draghi said low interest rates are no longer delivering the same degree of stimulus as in the past. For monetary policy to achieve its objective faster and with fewer side-effects, it needs other policies to step up.

"We need a euro-area fiscal capacity of adequate size and design: large enough to stabilise the monetary union, but designed not to create excessive moral hazard," said Draghi. "National policies cannot always guarantee the



Mario Draghi

right fiscal stance for the euro area as a whole."

The euro area has long been grappling with attempts to create a joint budget, but has fallen short of what's needed. Germany, which has run surpluses for half a decade, has balked at creating a common tool amid political fears that it might be used for unnecessarily loose spending elsewhere.

Draghi noted that the US was able to put the crisis behind it much faster than the 19-nation currency bloc, in part because of fiscal measures and a unified capital market something the euro area has also so far struggled

to complete. "The US has had both a capital markets union and a counter-cyclical fiscal policy," he said. The euro area had no capital markets union and a pro-cyclical fiscal policy. Merkel acknowledged Draghi's message, without going so far as to explicitly advocate a sizable fiscal union any time soon. "Monetary policy can do many things but not everything," she said. "The ECB can't do the homework of governments that they themselves need to finish to strengthen their competitiveness."

## Courageous action

Macron, who led the most-recent drive for a European-level fiscal capacity, cited Draghi's legacy-defining statement of 2012 when he pledged to do whatever it takes to save the euro from its debt crisis.

"I can only salute the courage of the leader who knew, while respecting his mandate,

how to call on member states to show ambition and go beyond our dogmas," said Macron. "It is now up to us, heads of state and government, to carry this whatever it takes to measure up to your courage and your clear-sightedness."

Draghi admitted that co-ordinating decentralised fiscal policies is inherently complex, but said that uncoordinated policies are not enough because the spillovers between countries from fiscal expansions are relatively low.

The Italian, whose final day in the job is on Thursday, leaves Lagarde with record-low interest rates and a fresh round of bond purchases that split members of his Governing Council.

The Frenchwoman has pledged continuity in monetary policy, but also signalled that a rethink of the institution's strategy something some officials have openly advocated may be needed.

## Increasing focus on digital transactions helps banks 'boost' credit card business

Some big banks see card business surge 40%; further increase likely

## G NAGA SRIDHAR

Hyderabad, October 29

Banks are betting big on credit cards to ramp up their retail lending portfolio with a significant increase in the card business. As of September 30, 2019, credit card business rose 40 per cent in the case of some major banks, and is likely to witness a further increase.

For HDFC Bank, advances under the credit cards segment rose to ₹52,043 crore in September this year, compared to ₹40,535 crore in the year-ago period.

Credit cards, along with personal loans, grew by 47 per cent as of September 30 for ICICI Bank to ₹52,400 crore. It has been one of the drivers for retail growth.

According to Rakesh Jha, Chief Financial Officer, ICICI Bank, this portfolio accounts for 8.6 per cent of the overall loan book of the bank.

The increasing focus on digital transactions is also driving the

growth of credit card business. According to Axis Bank, the spend on credit cards grew 34 per cent year-on-year. SBI Cards has also reached the milestone of 95 lakh cards in force. With an 18 per cent market share in card business, it now has 17.7 per cent market share in total spends.

The spike in credit card business not only reflects in the individual business of banks, but has also been captured by RBI data.

Up to September 2019, credit card outstanding went up to ₹97,650 crore, representing an increase of 24.4 per cent, compared to the year-ago period.

The increase in card business is also being driven by several other factors. The use of credit bureau data and strict adherence to applicants' 'good score' have been helping banks to expand the card business without worry-



ing much about the security of the portfolio. "Fixed deposit-linked credit cards for those who have bad credit history are being extended, which is also adding up to the confidence of banks, in view of the unsecured nature of credit card business," said a top official with a major private sector bank.

## Herd movement

However, the Reserve Bank had earlier cautioned banks on the 'herd movement' among bankers to grow retail credit in the wake of lean growth in corporate credit book.



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## PROPOSED IPO

## Ujjivan SFB lists steps taken to rectify shortcomings flagged by RBI

## OUR BUREAU

Mumbai, October 29

Ujjivan Small Finance Bank (USFB) clarified on Tuesday that loans that did not qualify for priority sector lending (PSL) have been removed from PSL classification. It has also sharply cut the concentration of top 20 deposits, and put in place quality control processes to prevent any mismatch in the rate of interest mentioned in certain sanction letters and in loan agreements, among others.

The clarification comes in the backdrop of the RBI's observations after its annual financial inspection of USFB, as disclosed in the Draft Red Herring Prospectus (DRHP) filed by the bank with the Securities and Exchange Board of India, in connection with its proposed initial public offer (IPO).

In relation to the RBI's observation on the lack of systems to tag PSL advances, mis-categorising of PSL advances and earning of processing fees on PSL loans, USFB said it was earlier classifying PSL loans manually based on reports. Most of

USFB's loan accounts are currently tagged online, the bank said in a regulatory filing.

"PSL loans which did not qualify were removed from PSL classification. Processing fees collected on these accounts were refunded to customers. A small proportion of USFB's agricultural loans had been mis-categorised as PSL advances, based on erroneous land-holding data. These cases have been re-classified as non-PSL advances," the

bank said. On the issue of a lack of rating methodology, USFB observed that it had a score-

card-based framework in place for rating its borrowers, and is working on an automated rating methodology.

On the high proportion of bulk deposits and concentration of top 20 depositors, USFB said the concentration of top 20 deposits has substantially decreased from 73.59 per cent (as on

March 31, 2018) to 30.14 per cent as on September 30, 2019.

On liability products being offered in certain asset centres without the RBI's approval, the bank clarified that the issue has since been resolved. Regarding the rate of interest mentioned in certain sanction letters being different from those mentioned in loan agreements, the bank said necessary quality control processes had been put in place to prevent any recurrence of such instances.

On the issue of a discriminatory interest rate on deposits on

## IRDAI approval for BSE-Ebix insurance broking joint venture

## PRESS TRUST OF INDIA

New Delhi, October 29

A joint venture between the BSE and US-based insurance exchange Ebix has received in-principle approval from insurance regulator IRDAI to act as a direct insurance broker, the exchange said on Tuesday. The venture, BSE-Ebix Insurance Broking Pvt Ltd, will enable distribution outlets, wealth management advisors, and point of sales to sell life and non-life insurance products.

"We have realised that there is huge demand for investment products, and our platforms like BSE STAR MF are performing well. We expect to taste similar success in the insurance distribution segment and help insurers expand their network through the combined reach of BSE and Ebix-Cash," said Ashishkumar Chauhan, MD and CEO of BSE.

The venture will make use of the reach of both the BSE and EbixCash and cover the entire insurance lifecycle from customer relationship management, agency management, multi-quoting, underwriting, policy creation, among others.

## Bank of India to raise up to ₹2,000 cr in Q4

## OUR BUREAU

Mumbai, October 29

Bank of India (BoI) is likely to tap the capital market to raise up to ₹2,000 crore in the fourth quarter of FY2020 via qualified institutional placement (QIP) / follow-on public offer (FPO). The public sector bank said the issue size may vary based on various factors, including but not limited to management discretion and the decision of the shareholders.

BoI has initiated the work related to the appointment of book running lead manager and other intermediaries to prepare the requisite documents, and to undertake various activities in relation to the QIP / FPO.

In FY2019, the Government of India infused ₹14,724 crore capital into the bank in two tranches – at ₹105.75 per equity share in December 2018 aggregating ₹10,086 crore and at ₹89.60 per equity share in February 2019 aggregating ₹4,638 crore.

Further, the bank, under the Bank of India-Employee Stock Purchase Scheme (ESPS), raised ₹660.80 crore. Under this scheme, the bank has allotted 6.25 crore new equity shares having face value of ₹10 each at a discount of 24.28 per cent on the floor price of ₹105.64 per share – that is at an offer price of ₹80 each.

## Non-core assets

Besides capital infusion by the government and raising monies via EPS, the bank has also been undertaking monetisation of non-core assets to strengthen the capital base. During 2018-19, the bank realised ₹227 crore from the sale of non-core assets. During the current year, the bank aims is seeking to mop up more than ₹600 crore.

As of March-end 2019, the bank's market share of aggregate domestic deposits was 3.33 per cent and its market share of aggregate advances 3.36 per cent.

## ...onus now on Lagarde to heal rift at the central bank

## REUTERS

Frankfurt, October 29

Mario Draghi will leave a more unified euro zone when he steps down as president of the European Central Bank this week, but he hands over a body more publicly divided than ever on how best to resurrect an ailing regional economy.

The 72-year-old Italian banker is widely credited with saving the euro zone from collapse, but some critics say he also overpowered opponents and tended to front-run the bank's monetary policy in public.

His approach fuelled discord that spilled into the open, critically weakening the bank's united front when it was most needed to persuade investors that it was committed to its policies.

More than a dozen current and former ECB policymakers agreed that Draghi is

a superb central banker who deserves credit for swift action during the euro crisis of 2012, when he single-handedly saved the currency by quashing speculation against the bloc's most heavily indebted countries.

"Draghi was an inspiring leader at very difficult times," said former Austrian central bank chief Ewald Nowotny. "So this is a bit of a problematic ending to an otherwise very impressive career."

## Management style

In particular, Draghi's management style sharply escalated tensions by the end of his term, some policymakers said. They said further that creating the broadest possible consensus and making sure that the ECB speaks with one voice should be Christine Lagarde's top priorities after she takes over on November 1. Assuring investors that the



Christine Lagarde

bank's policies would remain consistent would provide markets with a degree of certainty, they added. "Mario is willing to live with 50 per cent plus one vote," said one of the policymakers, who asked not to be named. "Christine (Lagarde) needs to change this."

Draghi and the ECB declined to comment for this story. Lagarde was unavailable for comment. When asked in his last news conference as ECB president last week about the dissent over

restarting bond purchases, Draghi said disagreement was unavoidable and the bank has stuck to its mandate of keeping euro zone prices stable.

"Ultimately it is the reality that speaks more strongly than any other voice," said Draghi. "It is the reality together with the conviction that we did what we did always in pursuing our mandate. If anything, that's a distinctive thing."

The most dramatic public schism occurred last month, when the ECB agreed to resume government bond purchases in an effort to kickstart fading economic growth and nudge up inflation to its target of just below 2 per cent.

More than a third of policymakers objected, the biggest dissent Draghi faced in eight years at the head of an organisation that traditionally strives for consensus.