

FINSCAPE

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Dear readers,

This second issue of our news letter brings some interesting news in financial services sector. Both the regulators IRDA and SEBI launched the online grievance redressal systems with a view to improve the transparency and efficiency in handling customer complaints.

RBI in its monetary measures announced in June, raised the repo and reverse repo once again by .5 bps with an objective of reigning in the inflation which touched 9.06% in May causing a serious concern. This is the second time within 2 months RBI raised the repo and reverse repo rates. RBI had earlier revised these rates upward on 3rd May. Some major banks have already raised their retail lending rates in view of this change. Home loans are other retail loans are expected to become dearer with this change.

The Finance Minister in his statement asserted that the growth drivers and intact and short term challenges like inflation notwithstanding the growth rate of GDP can be expected to be around 9% for the current year.

The draft guidelines for Insurers to tap capital market are given by the regulator and presently only 3 insurance companies appear to be eligible to take advantage of this. This move will help the eligible insurers since the capital requirements are very high in insurance sector due to stringent solvency margin requirements.

The move of AP government to form NBFC to lend at subsidized rates to SHGs is a significant one as it is likely to delay the recovery of the already beleaguered Micro Finance Institutions operating in A.P. The reported increase in fraudulent claims is another area of concern and it is high time the insurers set up the risk management framework to control and bring down the same.

Dr.Prakash Bakshi takes over as chairman of NABARD from June. FINSCAPE wishes him good luck in his new role where he faces the challenge of successful execution of the government's financial inclusion agenda.

Finally, Kudos to Ms.Chanda Kocchar for making India proud by bagging Global Leadership Award.

Happy reading,

Prof. Venugopal R
Co-ordinator, CFS

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INSURANCE

IRDA may allow Banks to sell products of 2 insurers

Insurance sector regulator IRDA said on Friday (4th June) it is considering a proposal to allow banks to sell products of two insurance companies each in life and non-life categories, a move that will help increase penetration. As per the current practice, a bank is allowed to sell products of one each in a life insurance company, a general and a health insurance company. The committee set up by the regulator in 2007 by IRDA to suggest ways to increase insurance penetration, has recommended that banks should be allowed to tie up with two insurers. We are in the process of examining the recommendation" IRDA chairman J.Harinarayan told reporters on the sidelines of a seminar here. He was here at the launch of the IGMS (Integrated Grievance Management System), which is an online grievance portal for customers.

Insurers with 10 years of operations can tap capital market: IRDA

Insurance companies that have completed ten years of operations and have strong financials will be allowed to access the capital market, according to the draft guidelines issued by the regulator IRDA on 21st June. No issuance and allotment of capital by an insurance company shall be, in any form other than fully paid up equity shares proposed IRDA. Insurance company planning public offer has to seek 'formal approval' from the IRDA and then approach SEBI for final approval. As part of the eligibility criteria, the insurance company should have maintained the prescribed regulatory solvency margin as at the end of the preceding six quarters. Besides, the insurance company should have embedded value of atleast twice the paid up equity capital. The company should have been fully compliant with the corporate governance guidelines issued by the IRDA.

IRDA has invited comments or suggestions from all the stakeholders on the exposure draft by June 30.

IRDA launches Integrated Grievance Management System

Insurance sector regulator IRDA has launched Integrated Grievance Management System (IGMS) as a part of its public awareness initiative. Under this system a customer can now register his complaint with IRDA online. Customers can access IGMS at www.igms.irda.gov.in.

IGMS is also linked to IRDA Grievance Call Centre – 155255

PNB likely to finalise life insurance biz partner by July

New Delhi, Jun 19 (PTI) The country's second largest public sector lender Punjab National Bank (PNB) may finalise a partner for its life insurance business in a month, as it has received financial bids from three players.

The bank is scrutinizing all the financial bids and may take a view by the end of next month, a senior official of the Punjab National Bank said.

Financial bids were sent by the three shortlisted life insurers -- Aviva, Metlife and Bharti AXA.

The bank will finalise the partner for its life insurance business based on the evaluation of the proposals submitted by these insurance companies, the official said.

If PNB picks up stake in any life insurer, either domestic or overseas partner will have to dilute stake in the insurance firm.

Fraud claims go up in insurance sector

While the insurance industry has seen exponential growth in the last five years, there has been an increasing incidence of frauds, which are driving up the costs of insurers and premiums for policyholders. The insurance industry incurs a loss of more than 8% of its total revenue collection in a financial year due to fraudulent claims.

In a recent Ernst & Young survey, 40% respondents felt that fraud cases in insurance have gone up substantially. The most common frauds are related to overstating claims and the manipulation of documents. In the general insurance segment, a large number of frauds occur in health insurance and this particular segment loses around Rs.1,000 crore every year on false claims. Misselling is rampant in insurance and the senior citizens are the most vulnerable as they do not understand new products. About 31% of the respondents in the survey indicate that insurance companies are most affected by misselling

The average ticket size of each fraud can be anywhere between Rs.25,000 to Rs.75,000. Around 30% of the total frauds are in the ticket size of up to Rs.25,000 and around 19% in the ticket size above Rs.1,50,000. The survey points out that fraud can increase premiums for policyholders by up to 3%, which is an additional cost for those who pay their premiums diligently.

There is an urgent need for insurers to put in place a dedicated anti-fraud department that will proactively identify suspicious claims that have a high possibility of being fraudulent. Respondents say around 40% of insurers do not have an anti-fraud department and there is a need to do data analysis using various forensic tools and put in place an effective fraud risk assessment framework.



FINSCAPE news compiled by Prof Venugopal R

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Banking Sector Outlook stable

The outlook for Indian banks is stable for the fiscal year ending March 31, 2012, said Standard & Poor's ratings Services on 8th June. The sector's growth is likely to be high in the next 2-3 years. But high inflation, increased competition, and evolving risk management processes will be key challenges, said the rating agency in an article titled 'India Banking Outlook 2011: stability ahead, but some headwinds remain'

RBI'S research wing to provide growth platform for financial sector, policy makers

The RBI plans to position the Centre for Advanced Financial Research and Learning - or CAFAL- promoted by it, as a top rung research institute to cater to policy makers and the financial sector.

The Centre, which is headed by the former Deputy Governor of RBI Usha Thorat, will, for the first time, provide a platform for academics, researchers and practitioners to explore and carry out research on policy and regulatory issues in banking and finance.

Ms Thorat told ET that besides research reports, the centre plans to conduct workshops, seminars and conferences regularly. The institute will flag off its first initiative by hosting a conference with CEOs from commercial banks on May 28 on 'Business Strategy in the emerging regulatory landscape'. The new research centre hopes to sensitize banks on how to adopt a risk management framework for driving strategy and capital planning by hosting this meeting.

RBI monetary policy measures

RBI RAISES REPO RATE BY 25 BPS TO 7.50%

Reverse repo rate by 25 bps to 6.50%

Cash Reserve Ratio (CRR) retained at 6%

Marginal standing facility also up 25bps to 8.5%

Dr. Prakash Bakshi takes over as new chairman of NABARD from first week of June, 2011. He succeeds U.C. Sarangi, who held the position from 2008. Mr Bakshi, a doctorate in Economics, has risen through the ranks and having spearheaded key departments like cooperative revival, farm sector, micro credit and financial inclusion, is abreast with the emerging demands of these verticals. He started his career as a lecturer at Ravishankar University, Raipur, before joining the Reserve Bank of India in 1979. He was part of Nabard since its inception on July 12, 1982

Shyamala Gopinath, Deputy Governor, RBI retires on 22nd June.

Mrs. Gopinath spent almost four decades in RBI. She had joined the Central Bank as an officer in April 1972 and has worked in different capacities including executive director until her elevation to the position of deputy governor. She has also served for two years (2001-2003) on deputation to the International Monetary Fund.

LIC Card, Axis Bank introduces value added Credit Card

New Delhi, June 20 (PTI) LIC Cards and Axis Bank today entered into a partnership and introduced a value added Credit Card service for the customers and employees of LIC, its subsidiaries and group companies. The card comes with host of benefits, including access to airport lounges and fuel surcharge waiver. The LIC Credit Card program is designed to offer payment solution to customers of LIC, there will be four product variants, namely Visa Gold, MasterCard Titanium, Visa Platinum, and Visa Signature Credit Card. In addition to regular credit card benefits like global acceptance, interest free credit period, cash withdrawal etc.

Banknet is organizing Seventh Edition of Annual International Bank Tech Summit.

Banknet is organizing Seventh Edition of Annual International Bank Tech Summit on 20th September 2011 at Taj Lands End, Mumbai, India which focuses on "Strategies & Management of Technologies for BFSI in the Next Decade".

One of the largest Annual Financial Technology Summit organized will deliver a comprehensive overview of the challenges and opportunities that the next gen of technology holds for the Banking, IT, Insurance and Financial Sector as a whole.

Banks will now have to resolve ATM related customer complaints within 7 working days from July 01, 2011

Reserve Bank, with a view to further improve the efficiency of operations, it has been decided as under :

The time limit for resolution of customer complaints by the issuing banks shall stand reduced from 12 working days to 7 working days from the date of receipt of customer complaint.

Accordingly, failure to recredit the customer's account within 7 working days of receipt of the complaint shall entail payment of compensation to the customer @ Rs.100/- per day by the issuing bank.

Any customer is entitled to receive such compensation for delay, only if a claim is lodged with the issuing bank within 30 days of the date of the transaction.

The number of free transactions permitted per month at other bank ATMs to Savings Bank account holders shall be inclusive of all types of transactions, financial or non-financial.

All disputes regarding ATM failed transactions shall be settled by the issuing bank and the acquiring bank through the ATM system provider only. No bilateral settlement arrangement outside the dispute resolution mechanism available with the system provider is permissible. This measure is intended to bring down the instances of disputes in payment of compensation between the issuing and acquiring bank.

Bank of India: 1st bank to Launch 'Aadhaar' based RuPay Card with brand name DhanAadhaar and BTM- Banking through Mobile

In association with UIDAI and NPCI, Bank of India has launched BOI Dhan Aadhaar Card at the hands of Dr K C Chakrabarty Dy Governor, Reserve Bank of India in a function at village 'Padgha' in Thane District of Maharashtra on 19.06.2011. Bank of India is the first bank to roll out a product using Aadhaar authentication infrastructure. Card is useful to the customers in multiple ways. Firstly, this card can function on multiple channels like ATM and micro-ATMs. Secondly it uses Aadhaar authentication and finally it can function as an identity card as Aadhaar number and photograph is printed on the Card.

Bank has been a front runner in incorporating latest technological advances so that cost of financial inclusion drive is reduced. Usage of Aadhaar authentication is a futuristic move. In addition, it can substantially reduce the time lag in enrolling the customers and starting their transactions. Also, Aadhaar Enabled Payment System (AEPS) obviates the duplication of efforts in capturing of biometry and instead the Aadhaar biometry is used for the transactions.

Moreover, for the first time an indigenous card platform RuPay is being used for issuance of cards in a big way. So far, cards were issued either with Master Card International and VISA card affiliation.



MICROFINANCE

EQUIFAX launches new micro finance bureau in India

Equifax Credit Information Services Pvt. Ltd. Announced it is launching a microfinance credit bureau. ECIS is a joint venture between Equifax and six Indian Financial Institutions – Bank of Baroda, Bank of India, Kotak Mahindra Prime Ltd., Religare Finvest, Sundaram Finance Ltd and Union Bank of India.

This is the second credit bureau following the one set up by MFIN, a self-regulatory body for the NBFC Micro finance sector. Mr. Samir Bhatia, MD and ECO, ECIS said, “with the Equifax microfinance credit bureau in place, consumers who may have otherwise been unable to obtain assistance can now establish their credit history and obtain funding”.

Mr.Alok Prasad, CEO, MFIN said “dedicated credit bureaus for the sector will bring much needed transparency at the client level and will help curb multiple lending”.

Financial Inclusion Plan 'not yielding desired results'

The government and RBI's ambitious financial inclusion plan is not yielding desired results yet as most of the programmes, including no frills accounts, are ineffective, a study shows. Out of the total 74 million no frill accounts opened in the country last year, only 3%of them are operational, according to a study done by consultancy firm SKOCH Development. In the past one year, over 74 million no frills accounts were opened by banks, but the number of active accounts reported by banks were between 3% and 20%.

The report also states that out of 5000 new branches opened in 2011, only 21% are in rural areas, and the number of urban households covered under the no frill accounts are double than that of rural households.

Andhra Pradesh plans NBFC to lend at subsidized rates to SHGs

Andhra Pradesh Government plans to set up a Non-banking Finance company (NBFC) to lend at subsidized rates to self-help groups with funds from the central government.

We are planning to set up an NBFC that can offer credit to SHGs at a little over 3% interest rate. Already, state offers subsidized lending at 3% to SHGs through banking linkage under 'pavala vaddi' (affordable interest) scheme. Our effort is to strengthen this and we have asked the Union Rural Development Ministry for equity participation' said CM Mr.N.Kiran Kumar Reddy, who has sought Rs.100 crore equity from the Central Government.

The Union government will offer to SHGs at 7% interest rate through public sector banks. This is expected to help Andhra Pradesh, which is planning to strengthen the SHG-bank linkage to fill the credit gap arise out of the crisis in the microfinance sector.

Andhra Pradesh houses 15%SHGs in the country. The state has about one million SHGs and 46% of the National Bank Credit to SHGs goes to Andhra Pradesh. The Centre, as the part of budget outlay, has proposed a separate financing window for SHGs with an initial corpus of Rs.500 crore. The state is looking at getting money from this. The state may also pool in Rs.50 crore initial equity besides getting Rs.50 crore each from NABARD and SHG federation.

International summit on Micro Finance held at Hyderabad from 21st - 23rd June

Three day Fourth International Summit 'International Alternative Summit on Microfinance and Inclusive Development' started off at Hyderabad on 21st June with 'Microfinance and Inclusive development' as its main theme. It was being organized by Society for Elimination of Rural Poverty (SERP), AP Government in Association with the National Rural Livelihoods Mission (NRLM) of Central Government and International Network of Alternative Financial Institutions (INAFI). Participants from 75 countries including Bangladesh, Philippines, Afghanistan, Nepal, SriLanka and the USA attended the meeting along with the representatives of SHGs, NGOs. Govt. and the Banks. The three day summit had parallel sessions on various themes related to microfinance, issues and challenges and the way forward for inclusive development.

OTHER NEWS

FDI Inflows dip during 2010-11

FDI inflows into India totaled \$19.42 billion in 2010-11, down from \$25.83 billion in 2009-10 according to Industry Ministry data. The sectors which attracted the FDI mainly were Services (financial and non-financial), telecommunications, housing and real estate, construction activities and power, the data said.

SEBI launches web-based complaints redress system SCORES

SEBI launched web-based complaints redress system (SCORES) on 8th June. This system would enable investors to lodge and follow up their complaints and track status of redressal of such complaints from anywhere. SCORES would expedite disposal of investor's complaints as this would obviate the need for physical movement of complaints and the possibility of loss, damage and facilitates easy retrieval.

Investors can use this facility on <http://scores.gov.in>

India seeks \$2.5 bn World Bank aid for power projects

India's power ministry has sought a financial aid of \$2.5 billion or over Rs.113 billion from the World Bank for an ambitious project of transmission and distribution of electricity among the eight northeastern states, an official release said here Monday.

The release, issued by the North Eastern Council (NEC), said: 'the union power ministry has recently submitted the Rs.11, 348.5 crore proposal to the World Bank.'

'The North Eastern states, mainly Arunachal Pradesh, have the potentiality to generate 63,257 MW hydro electricity. The biggest hydro-electric plant, Lower Subansiri, in Arunachal Pradesh with a capacity of 2,000 MW is scheduled to be completed between 2013-2015.'

Chanda Kochhar to receive Global Leadership Award

Chanda Kochhar, ICICI Bank's Managing Director and Fred Smith, FedEx CEO would receive the Global Leadership Award here next week for their contributions to the US-India commercial relationship. The Global Leadership Award will be presented to the two corporate leaders at the 36th annual gala of the US India Business Council to be held here on June 22-23. The meeting will be addressed by William Daley, Chief of Staff of US President Barack Obama and Union Minister of Commerce and Industry Anand Sharma among others.

SIEMENS gets NBFC Licence

SIEMENS has received the certificate of registration from Reserve Bank of India to operate a Non-banking finance company for its financial services business in India.

The NBFC arm will operate in the name of SIEMENS Financial Services Pvt. Ltd. (SFSPL). Siemens said SFSPL will focus on developing an asset financing business.

