

SBI corners a third of remittance pie in Q1

Aggressive Expansion Overseas Helps Bank Raise Its Share Of Cash Remittances To 36%

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MUMBAI

THE State Bank of India's share in cash remittances from overseas has jumped sharply as the bank aggressively expanded overseas and opened specialised NRI branches in India. The bank's market share rose to 36% during the quarter ended June 10 compared with 21% in the corresponding quarter a year ago.

This is significant particularly as India is the largest recipient of inward remittances. In 2010, inflows are estimated to touch \$55 billion, according to a recent World Bank Study. Cash remittances include total inward remittances to India for family maintenance and net inflow for NRI deposits that is not repatriated and used for local use. However, the RBI definition of

remittance includes import of gold by individuals on travel.

Cash remittances stood at \$8,100 million for the quarter ended June 2010 against \$9,002 million a year ago. SBI officials say their share in remittances from abroad for quarter ended June 2010 stood at \$2,838 million against \$1,895 million a year ago. The sharp rise in market share could be because of the total remittance that has fallen on a year-on-year basis. SBI's share in remittances by the end of March 2010 was 29.6% against 24.4% a year ago. In absolute terms, remittances at SBI rose to \$9,320 million from \$6,720 million. Banks with large overseas presence, such as the Bank of India, Bank of Baroda and ICICI Bank, are in this business. Officials from ICICI Bank declined to comment on their mar-

ket share.

SBI officials say the rise was due to a conscious effort to increase their pie in remittances. "We have 34 dedicated branches for NRIs and appointed several relationship managers for them. Secondly, we have introduced STP or straight through process, wherein the funds are transferred from overseas branches to designated domestic branches within minutes," pointed out senior SBI officials, who did not want to be quoted. "Also, to meet stiff competition, at some centres like the UK, we do not charge for funds transfer to India," he added. Over and above this, SBI has tied up with 22 exchange companies and four banks in the Middle-East for transfer of funds to India.

SBI officials point out that the next big step in the remittance business would be

the focus on non-India-centric fund transfer. "We would now look at remittance business from cross-border remittances from overseas offices to non-India locations such as Sri Lanka, Bangladesh and Nepal," said an SBI official.

A study done within SBI shows that the bank's UK office has better business opportunities in tapping Bangladesh, since none of the domestic banks of Bangladesh have a branch in the UK. Incidentally, Bangladesh is also among the top-10 recipients of inward remittances. Riding on this, SBI, which has four branches in this neighbouring country, plans to open four more there. "Similar opportunities are in Nepal and Sri Lanka where SBI has 48 and three branches, respectively. Given the huge migration of labour from Nepal to India, opportunities are equally big, but KYC is seen as a hurdle," said SBI officials.

SBI completes

€750-m bond issue

MUMBAI: SBI on Tuesday completed its €750-million bond issue, its largest single-tranche raised ever, on the very first day. The senior unsecured bonds of five-year tenor, with a fixed coupon of 4.5%, received subscription of €1.3 billion from 180 institutional investors. The proceeds of the issue will be used to fund SBI's clients seeking euro loans. Bonds floated through its London branch, was the first euro-denominated transaction from Asia this year and the first euro bonds issue from India in the past three years. It was also the largest euro-denominated bonds issue from India. The participants in the issue included 100-odd AMCs and over 60 banks.

first principle



Carry Trade In Currency

IT IS a strategy whereby an investor sells a certain currency with a relatively low interest rate and uses the receipts to purchase a different currency yielding a higher interest rate. A trader using this strategy attempts to capture the difference between the rates, which can often be substantial, depending on the amount of leverage used.

For example, in a rupee-carry trade, a trader borrows \$10 million from an American bank, converts the funds into Indian rupees and buys a bond for the equivalent amount. Let's assume that the bond pays 8% and the American interest rate is set at 2%. The trader stands to make a profit of 6% as long as the exchange rate between the countries do not change. Many professional traders use this trade because the gains can become very large, if leveraged.

The big risk in a carry trade is the uncertainty of exchange rates. These transactions are generally done with a lot of leverage, so a small movement in exchange rates can result in huge losses unless the position is hedged appropriately.

COMPLIANCE CALL

Irda plugs another loophole, allows universal life with riders

Variable Plans Will Have To Offer Either Guaranteed Returns Or Bonuses

Our Bureau
MUMBAI

THE insurance regulator has allowed insurance companies to once again sell universal life plans on the basis of new guidelines, which plugged loopholes used by insurers to indulge in regulatory arbitrage. The new guidelines require insurers to offer a guaranteed return if the policy terms do not entitle the insured to receive a bonus.

Under the new guidelines, universal life plans have to be called 'variable' insurance policies. In case of life Ulips, the regulator has imposed a cap on charges and the minimum surrender value the insured is entitled to.

If the policy is surrendered in the first three years, the policyholder is entitled to receive the balance in the policy account as on the date of the surrender which will be paid out after the lock-in period. If the surrender takes place during the fourth or fifth policy year, the policyholder is eligible for 98% of the policy balance available in his or her account. This amount is payable immediately on surrender. If a policyholder surrenders after the fifth year, the balance in the policy account has to be paid out immediately.



Similarly, the maximum expenses that can be charged to the premium paid by the policyholder in the first year has been capped at 27.5% of the first-year premium. For the second and third-year premium, the cap is 7.5% and 5% on subsequent years. If the insured decides to increase his contribution through a one-time top-up, the company can deduct at most 3% from the top-up by way of charges.

New norms also require that death benefit equals the guaranteed sum assured, plus the balance in the policy account. If the insured survives until the policy matures, he will get whatever the balance is under the policy account, plus any terminal bonus.

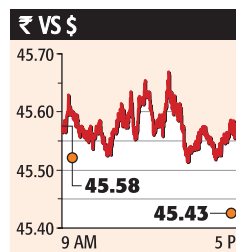
A few months ago, the regulator cracked down on unit-linked insurance plans with new guidelines which forced insurers to return to

policyholders with most of their premium, even if they made an early exit. It also compelled insurers to offer a minimum level of protection so that Ulips are not positioned as mutual funds. The new rules forced insurers to reduce commissions and also required them to lower the expenses charged to the policyholders' account. To improve their bottom line, many insurance companies started pushing variable life plans, which were not subject to the Ulip regulations on commissions and charges.

According to Irda, the design innovations in variable life products provide consumers greater flexibility to change the mortality and savings proportions of their insurance policies as individual life stage needs change. "These new variations of traditional products are variously termed 'Universal Life' or 'Variable Life' policies and these products have gained a substantial share in the market, particularly in the developed markets, where they first evolved. It is clear that their popularity is caused by the greater flexibility, transparency and lower business strain, compared to non-linked conventional type products, which provide better returns," the regulator said.

currency corner

Re falls on talk of dollar purchases by importers



THE rupee fell to a two-month low on speculation importers will boost dollar purchases ahead of the month-end to pay bills. The rupee declined 0.4% to 45.58 per dollar at the close of trade on Tuesday. It fell to as low as 45.675 earlier, the weakest level since September 23.

The Dollar Index, which tracks the greenback against the currencies of six major US trading partners, gained for a second day as a warning by Moody's Investors Service on Ireland damped sentiment toward higher-yielding emerging-market assets. The rupee weakened for a third successive day as the Sensex lost 1.3%.

"The rupee is weaker, in line with the dollar's advance against other currencies including the euro," said Naveen Raghuvanshi, a currency trader at Development Credit Bank in Mumbai. "Equities, too, are showing a negative trend. Dollar demand from importers should rise before the end of the month."

A "multi-notch" downgrade of Ireland's credit rating was "most likely" because a bailout of its banks would increase the island's debt burden, Moody's said on Monday. Offshore forwards indicate the rupee will trade at 46.41 to the dollar in three months, compared with expectations of 45.94 on Monday.

Ten-year bond yields drop as inflation slows



TEN-YEAR bonds gained for a second day, pushing yields to the lowest level in two weeks, on speculation slowing inflation will dissuade the Reserve Bank of India from adding to this year's six interest-rate increases.

The yield on the 7.80% note due May 2020 fell three basis points to 7.99% at the close of trade on Tuesday. The price rose 0.21, or 21 paise per ₹100 face amount, to 98.75. Index for wholesale food prices advanced 10.3% in the week ended November 6 from a year earlier, the least in 17 months. The benchmark wholesale-price index rose 8.58% in October from a year earlier, the smallest increase since January.

"Bonds have gained as the drop in inflation may potentially boost returns," said Anoop Verma, a fixed-income trader at Development Credit Bank in Mumbai. "The inflation outlook is helping bonds despite the tight liquidity."

The Reserve Bank of India is monitoring the current liquidity situation in the banking system, deputy governor Shyamala Gopinath said in Mumbai on Monday.

Banks have borrowed an average of ₹9,900 crore (\$2.1 billion) each day this month through the central bank's repurchase auction, compared with a daily average of ₹5,200 crore last month, indicating that cash conditions are tight in the banking system. The cost of one-year interest-rate swaps, a fixed payment made to receive a floating rate, fell two basis points to 6.72%.

CROSS CURRENCY

COUNTRY	INR	USD	AUD	GBP	CAD	JPY	SGD	CHF	AED	EUR
India	-	0.02194	2.2344	0.0138	0.0224	1.83	2.8743	0.0217	0.0806	0.01619
US	45.75	-	1.0186	0.6276	1.1094	83.42	1.3102	0.9894	3.6729	0.738
Australia	44.7603	0.9818	-	0.61613	1.0008	81.89	1.2864	0.9704	3.6062	0.7245
Britain	72.622	1.5933	1.6229	-	1.6244	132.9	2.0876	1.5749	5.852	1.1759
Canada	44.7164	0.9809	0.9991	0.6156	-	81.82	1.2852	0.9696	3.6029	0.7239
Japan	0.5463	0.011988	1.2211	0.7524	1.2222	-	1.5707	1.185	4.4032	0.88476
Singapore	34.7847	0.7632	0.7774	0.479	0.7781	63.66	-	0.7544	2.8033	0.5633
Switzerland	46.1177	1.0117	1.0305	0.635	1.0313	84.39	1.3256	-	3.7156	0.7467
UAE	12.4098	0.2723	0.2773	0.1709	0.2775	22.71	0.3567	0.2691	-	0.2009
Euroland	61.8318	1.355	1.3801	0.85045	1.3814	113.02	1.7753	1.3393	4.9769	-

EXCHANGE RATES

Currency	TT Buy	Bill Buy	TT Sell	Bill Sell	TC Buy	CCY Buy	TC Sell	CCY Sell
Australian Dollar	44.5625	44.4725	45.3950	45.4825	44.1000	43.9000	45.8500	46.1000
British Pound	71.8850	71.7400	73.2125	73.3575	71.1500	70.8000	73.9500	74.3500
Canadian Dollar	44.2650	44.1750	45.0900	45.1800	43.8000	43.6000	45.5500	45.8000
Danish Krone	8.1950	8.1775	8.3650	8.3825	8.1000	8.0500	8.4500	8.5000
Euro	61.2725	61.1475	62.4075	62.5300	60.6500	60.3500	63.0500	63.3500
Hong Kong Dollar	5.8100	5.7975	5.9375	5.9500	5.7000	5.7000	6.0000	6.0500
Japanese Yen (*100)	54.1200	54.0100	55.1225	55.2325	53.5000	53.3000	55.7000	55.9500
New Zealand Dollar	34.7175	34.6475	35.3700	35.4400	34.3500	34.2000	35.7500	35.9000
Singapore Dollar	34.6475	34.5775	35.3000	35.3700	34.3000	34.1000	35.6500	35.8500
Swedish Krona	61.5150	61.5025	62.8025	62.8150	61.6000	61.4500	63.7500	64.0000
Swiss Franc	45.4675	45.3750	46.3175	46.4100	45.0000	44.7500	46.8000	47.0500
US Dollar	12.1550	12.1300	12.6650	12.6900	12.0000	11.9500	12.8000	12.8500
US Dollar	45.2850	45.1950	45.6950	45.7875	44.8000	44.6000	46.1500	46.4000

CURRENCY FUTURES

Contract	Open Price	High Price	Low Price	Close Price	Open Interest	Value (Rs Lakhs)	No Of Contracts	No Of Trades
MCX-SX								
EURINR261110	62.10	62.10	61.71	61.92	13766	22734.73	36743	5989
EURINR291210	62.33	62.33	62.00	62.22	4298	3493.18	5617	657
GBPINR261110	72.85	72.89	72.51	72.84	7673	7341.30	10112	2158
GBPINR291210	73.04	73.05	72.88	72.97	2803	693.76	761	194
JPYINR261110	54.80	54.73	54.47	54.68	6425	8264.09	15131	2036
JPYINR291210	54.71	54.94	54.71	54.89	2892	1551.38	2827	346
USDINR261110	45.50	45.70	44.67	45.82	595002	190399.32	417326	60223
USDINR291210	45.78	45.95	45.75	45.87	338516	139123.73	303322	3870
USDINR270111	46.07	46.15	46.00	46.07	96942	11033.67	21928	723
USDINR240211	46.27	46.31	46.23	46.23	10964	655.55	1417	61
USDINR230311	46.38	46.45	46.38	46.39	7720	278.00	589	26
USDINR270111	46.50	46.50	46.48	46.48	844	37.65	81	5
NSE								
EURINR 261110	62.15	62.15	61.77	61.92	18840	15976.67	25804	2498
EURINR 291210	62.31	62.31	62.01	62.17	11400	6450.00	67500	4292
EURINR 270111	62.80	62.85	62.46	62.46	274	20.02	32	20
GBPINR 261110	72.67	72.70	72.51	72.84	9263	4545.92	6262	1069
GBPINR 291210	73.07	73.08	72.90	73.05	8274	323.33	743	84
GBPINR 270111	73.19	73.25	73.19	73.25	111	5.13	7	3
JPYINR 261110	54.46	54.73	54.45	54.68	8256	3914.97	1467	701

INTEREST RATE FUTURES

Instrument	Open Price	High Price	Low Price	Close Price	Open Interest	Value (Rs Lakhs)	No Of Contracts	No Of Trades
NSE								
10G57 291210	92.15	92.15	92.15	92.15	2	1.84	1	1

51% of Salaried Class never approached by Brokers / Investment advisors
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Aiding Market Development on the foundation of Research

Bengal MFIs make distress call to banks

Microfinance Cos Forced To Cut Down Loan Disbursement By 50% As Banks Stop Lending

Our Bureau
KOLKATA

FACING a shortage of lendable resources, microfinance institutions in West Bengal have huddled together and are desperately trying to convince their bankers for loans so that they can resume their normal operations. They are forced to cut down loan disbursement by 40-50%.

Banks have stopped lending to MFIs in general, fearing non-payment of their dues. This was triggered by a crisis in Andhra Pradesh, where poor borrowers of MFIs started defaulting wilfully. The decision of banks to avoid further exposure in the MFI sector has a trickle-down effect in the state too.

All micro lenders are gasping for funds to meet their credit demand from poor borrowers, which has forced them to reduce the scale of business. MFIs here are trying to convince that they are different from their counterparts in Andhra Pradesh and follow a code of conduct diligently. The code, prepared by their industry body, put certain restrictions on their operations to safeguard the interest of their poor borrowers. MFIs in Bengal are also in talks with development institutions like Sidbi and Nabard to find a way out from this stiff liquidity crisis, which is going out of their hands by the day.



"Nearly 80% of our funds come from banks. As banks stopped lending to us, we had no option but to curtail our lending growth," said Shubhankar Sengupta, managing director of Arohan, a Kolkata-based entity. MFIs take bank loans and on-lend to micro borrowers. The average size of micro-loan in West Bengal is around ₹5,000.

Bandhan Financial Services, the country's fourth-largest MFI by assets, said it will not lend more than ₹350 crore in November, against their usual target of ₹500 crore a month. Village Financial Services has halved its

monthly loan disbursement to around ₹15 crore from ₹30 crore even a month ago.

These lenders suspect that if they fail to meet a growing demand for micro loans, their borrowers would stop repayment to maintain the flow of the working capital.

"If the situation continues like this, the entire MFI system will collapse," said Kuldeep Maity, MD and CEO of Village Financial Services, West Bengal's second-largest MFI by assets.

Assam Co-op Bank may get ₹200-crore bailout

GUWAHATI: Assam Co-operative Apex Bank (ACABL) is likely to get ₹200 crore as a bailout package from the Centre and the state government. The state will get the fund as per the Vaidyanathan Committee recommendations for the revival of the country's short-term co-operative credit structure. Assam chief minister Tarun Gogoi, who is also in charge of the finance department, on Tuesday said the state has inked a tripartite agreement with Nabard and the Centre. As part of the agreement, the state government will bear 10% of the recapitalisation fund while the balance will come from the Centre.

The bank is carrying an accumulated loss of ₹50 crore. A few years ago, the accumulated loss was around ₹150 crore. "We are hopeful of wiping out the loss in one year's time," bank chairman Himanta Biswa Sarma said. He said the bank has earned a net profit of ₹6.44 crore for 2009-10 after a gap of almost 12 years. In the first half of the current fiscal, it made a profit of ₹15 crore. The bank plans to roll out ATMs and implement CBS by February next year. It has a network of 68 branches across the state.