BANKING FINANCIAL SERVICES AND INSURANCE (BFSI)

CHRONICLE

4th VOLUME - DECEMBER 2020

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body under an Act of Parliament)

www.icmai.in

Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016

Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003

Behind every successful business decision, there is always a CMA

MISSION STATEMENT

"The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

VISION STATEMENT

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

ABOUT THE INSTITUTE

The Institute of Cost Accountants of India is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrols students for its courses, provides coaching facilities to the students, organises professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants are increasingly contributing toward the management of scarce resources and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

After an amendment passed by Parliament of India, the Institute is now renamed as ''The Institute of Cost Accountants of India'' from ''The Institute of Cost and Works Accountants of India''. This step is aimed towards synergising with the global management accounting bodies, sharing the best practices which will be useful to large number of trans-national Indian companies operating from India and abroad to remain competitive. With the current emphasis on management of resources, the specialized knowledge of evaluating operating efficiency and strategic management the professionals are known as ''Cost and Management Accountants (CMAs)''. The Institute is the 2nd largest Cost & Management Accounting body in the world and the largest in Asia, having approximately 5,00,000 students and 85,000 members all over the globe. The Institution headquartered at Kolkata operates through four regional councils at Kolkata, Delhi, Mumbai and Chennai and 108 Chapters situated at important cities in the country as well as 10 Overseas Centres. It is under the administrative control of Ministry of Corporate Affairs, Government of India.

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Chairman's Message

CMA Chittaranjan Chattopadhyay
Chairman
Banking, Financial Services and Insurance Committee
The Institute of Cost Accountants of India

A dream does not become reality through magic; it takes sweat, determination, and hard work.

~ Colin Powell, former U. S. Defense Secretary

I feel happy to state that the Banking, Financial Services and Insurance (BFSI) Committee has published the 4th BFSI Chronicle for the current year. This has become possible for our BFSI Department by working hard to spread our wings at various genres.

The year 2020 will be recorded as a defining year in the history of modern civilization because of COVID-19, comparable in its scale to the Spanish Flu of 1918 and exceeding the economic losses of the Great Depression of the 1930s The effect of Corona virus has affected the stability of the economy of 150 countries; jeopardizing their life style, economy, impacting business and assumption of common wellbeing which was taken for granted. India's COVID-19 cases crossed 98 lakh mark as on 11th December 2020 as per the Ministry of Health and Family Welfare. The total active cases stood at 3, 59, 819. New cases reported on daily basis has fallen to 30 000 from the peak of 97000. With a COVID vaccine in sight, the country has already started preparing for a mass vaccination drive.

We have seen that the GST Collection has taken a spike and it has reached Rs.1 lakh crore and will augment further once the economy resurrects with the easing of the COVID-19 impact. The SENSEX and NIFTY is now at an all-time high with the advent of COVID-19 vaccine and growth rate coming close to the pre COVID-19 level. With the RBI regulation in the cooperative banks I feel that the management of the cooperative banks will be supported with CMAs who can be an aid to the regulatory measures of RBI. With the increasing role of CMAs in cooperative banks in more states it is fell that the imbroglio faced by PMC Bank and other Sahakari banks will be a thing of a past. The household savings has now risen to 21.4 percent as per the RBI figures and we feel economy is in the recovery phase and soon the GDP figures will also rise with more normalcy in Post COVID-

19 scenario in economy of the state. RBI and the Govt. of India have been continuously addressing the negative outcome of COVID-19 on Commerce and Industries in India with a number of measures to keep the wheels of progress moving during this unprecedented pandemic time, which deserves high appreciation. The economy is recuperating faster than anticipated and more sectors are joining the multi-speed upturn. The recovery in rural demand is expected to strengthen further, while urban demand is also gaining momentum. Consumers remain optimistic about the outlook and business sentiment of manufacturing firms is gradually improving. The Index of Industrial Production (IIP) grew by 3.6% in October on a year on year basis compared to 0.4% expansion in the previous month. Signaling an economic upsurge, India's industrial activity touched an eight month high in October. RBI has kept the Repo and Reverse Repo unchanged at 4 % and 3.35 % in the Monetary Policy meeting held on 4th December, 2020. RBI had proposed to enhance limits for contactless card payments from Rs.2000 to Rs.5000 from January, 2021.The RTGS system will soon be made 24 x7 in the next few days. We now expect growth in Q3 and Q4 to move in a positive trajectory. The RBI monetary policy continues with the 'accommodative stance' as long as necessary, to support growth. The RBI has decided to bring large urban cooperative banks (UCB) and NBFC within the Risk Based Internal Audit (RBIA) net. RBI has decided to introduce from January 1, 2021 the "positive pay system" for cheques under which reconfirmation of key details may be needed for payments above Rs.50 000 /-. Availing of the facility would be at the discretion of the account holder.

The CPI Inflation is projected at 6.8 % for Q3 of 2020-21, 5.8% for Q4 and 5.2 % to 4.6 % in H.1 of 2021-22. The real GDP growth is projected at (-) 7.5 % in 2020-21. (+) 0.1 % in Q3 and (+) 0.7 % in Q4. The focus is on keeping the headline inflation close to 4 % on a durable basis. The Centre aims to increase MSME sector contribution to GDP up to 50 % as stated by Shri Nitin Gadkari, Hon'ble Minister of MSME, Government of India. The blanket interest waiver on all loans to be Rs. 6 lakh crores –Centre stated to Supreme Court i.e. for all loans and advances to all categories of borrowers for the 6 months' moratorium period. The Finance Minister had assured that India will spend money, not to worry about fiscal deficit. The India's economy has been severally affected by the coronavirus pandemic is gradually recovering, the IMF said on December 3, 2020. Presently, Lakshmi Vilas Bank one of the old private sector banks is taken over by DBS Bank India. We further observe that the Companies raised over Rs.73000 crores from capital markets in October as per the SEBI. It is also seen that the Chinese exports to India decline to 13 %. And India's trade up 16% in 2020 as per the Chinese customs data as reported by Hindustan Times. Now, Foreign Portfolio Investors invested US $ 8.1 billion in domestic stocks during November, a record for any calendar month and nearly half of this went in the banking and financial stocks. As per newspaper reports, over Rs. 1100 crores of investors' money lie unclaimed with Top 10 Mutual Funds.

Coming to the Technology front, "If people are going to study one country right now, other than China, it should be India", Bill Gates said at the Singapore Fintech festival. He hailed India's Digital Finance Approach and called it Global Model. Google Pay and PhonePe accounted for 86 % of UPI transactions in October as per the NPCI data and the WhatsApp Pay makes a slow start in this fora. At present the UPI transactions in November stood at an all-time high of 221 crore transactions and processed Rs3.9 lakh crore worth of payments, registering a monthly increase over October by 6.69 % and 1.27 % respectively.

We have started the 2nd batch of Investment Management (Level1) Stock Selection and Trading on Equity on 12th December, 2020. The 1st batch had started from 18th October and concluded on 29th November, 2020. We are happy to state that the 3rd batch admission for the Investment Management (Level1) had already started and very soon we will start the 1st batch of Investment Management (Level II): Technical Analysis and Mutual Fund.

The Department would also start the batch of 2nd batch of three Certificate Courses in Banking from the last week of December, 2020. We have recently declared the results of the 1st batch of Certificate Courses in Banking i.e. Certificate Course in Concurrent Audit of Banks, Certificate Course on Credit Management of Banks and Certificate Course on Treasury and International Banking.

The BFSI Committee of the Institute had organized a WEBINT on ''International Conclave on Macro Economics, International Trade, Banking & Finance in Post Covid-19' on 3rd December 2020 to discuss and deliberate on contemporary issues in the areas of Macro Economics, Banking & Finance & Trade. The WEBINT will be moderated by Prof (Dr.) Sugata Marjit, Distinguished Professor, Indian Institute of Foreign Trade (IIFT) & Former Vice Chancellor, University of Calcutta as Guest of Honour and Panelist in the said WEBINT. The other speakers are Prof Lakshman R. Watawala, President, ICMA Sri Lanka delivered the opening address while other speakers are Dr. Manoj Pant, Director, IIFT, Dr. Hiranya Mukhopadhyay, Principal Public Specialist of Asian Development Bank, Dr. Soumya Kanti Ghosh, Group Chief Economic Adviser, State Bank of India and CMA Agneshwar Sen Associate Partner and Head Trade Policy, Tax and Economic Policy Group EY, LLP. The concluding remarks was given by CMA B. B. Goyal, Former Addl. Chief Adviser, Ministry of Finance, and Head of Indian Cost Accounts Service. It was attended by members and globally the event was a very successful event.

The BFSI Department has started a series of webinars FEMA 1999, Hedging Forex Risk and Trade Finance. We are organizing every weekends and CMA Nijay Gupta, Forex Expert is taking the sessions every Saturday from 10 am to 12 pm every week.

The Department is also trying its best to give the best support to members in the BFSI sphere and we would be organizing many more events, activities in the coming days.

Please favour us with your suggestions for taking our effort to a great height.

Wish you all along with your family members a Happy Christmas and New Year 2021 in advance.

Stay Safe and Stay Healthy.

Warm Regards

CMA Chittaranjan Chattopadhyay

December 14th, 2020

From the Desk of BFSI Team

Greetings from Team BFSI!!!

While the globe suffers from the trepidation of second wave of Covid-19, India seems to have done a commendable job not only in containing the spread of the deadly virus but also in bringing down the mortality rate to less than 1.50% which makes India one of the top nations of the world in successfully combating the pandemic. This is reflected in the economic indicators that have shown encouraging signs of recovery of the Indian economy that looked moribund and waning post-pandemic. India initially did struggle to cope up with the economic slowdown post lock down despite fiscal, monetary and other support from the Government. There were serious liquidity crunch as reduced availability of capital had impacted several sectors.

To address these liquidity challenges, the government and the Reserve Bank of India (RBI) have taken initiatives such as the Atmanirbhar Bharat Abhiyan (self-reliant India mission), moratoriums and various economic relief packages. The Government had announced a Rs 20 lakh crore economic package, which is equivalent to almost 10% of the GDP of india under the ‘’Atmanirbhar Bharat Abhiyan to bail our country out of the crisis brought on by the pandemic. While these measures are the need of the hour, their effective implementation will be decisive in successfully overcoming problems. It is therefore imperative that banks support the goal of economic revival by supporting the government and RBI's measures. Thanks to the unprecedented amount of fiscal and monetary stimulus and gradual reopening of economies post lockdown that kept sentiments intact worldwide with Indian markets being a major beneficiary. With deft handling and implementation of these measures by the government, Indian economy seems to be back on the path of revival. With the Government going full throttle in reviving the sagging economy, the Bulls are having a party on Dalal street as the 30-stock BSE Sensex for the first time in the history surpassed 46000 levels with news of the MNC pharma giant Pfizer having completed successfully the trial for the corona virus vaccine. These are indeed news of optimism and positivity while it remains to be seen when a common Indian gets the first doze of vaccination even as the entire nation waits for the same with baited breath.

There is no denying that the government and the Reserve Bank of India have initiated many activities for economic recovery. What is most needed is a proactive action plan for growth to bounce back to 6-7% in 2021-22. International economists have predicted a major decline in all economies, except India and China, where growth will dip, but may not contract. As Germany and Japan displayed considerable will power and determination after World War II, we can overcome the impact of the corona virus (Covid-19) if we are able to pull together nationally, as a team.

This issue of BFSI Chronicle carries many interesting articles and we are sure that our esteemed readers would benefit and enrich from these.

Happy reading!

FINANCIAL MARKETS

NORMALISATION & NEW WORLD ORDER

CMA Dhiraj Sachdev
Managing Partner & CIO
Roha Asset Managers LLP

'Fear is more contagious than disease', we have indicated in our earlier write-up, stating that panics or crisis create long term opportunity for investors. **Equity market precedes economic reality** is once again proved with sharp rally over the last few months while we are just beginning to witness significant month-on-month improvement at the ground level. In general, market has rightly been focusing beyond short-term demand issues and seems to be factoring-in fast approaching normalisation across many businesses.

We continue to see recovery on many fronts - economic data, Covid recovery cases in India as well as corporate earnings. Number of e-waybills generated and railway freight volumes remained high. Mobility trends from Google mobility report were positive. Electricity consumption was up. Car registrations picked up. Online payments, auto numbers indicate sharp improvement and activity levels are currently at about 85 to **100% of normal levels**. Toll collections are back to pre-covid levels. Recent GST crossed Rs.1 lakh crore and is at a 6-month high while exports grew 5% after 6 months of fall. Improvement in factory utilisation is also confirmed by several management commentary over the last few months. Even housing sales have rebounded across top 7 cities, with some reduction in unsold inventory.

Pent-up demand and inventory filling ahead of the festive season is helping the underlying recovery. Given part of demand recovery is pent-up, demand sustenance post festive season is crucial and needs to be monitored closely. However, what is interesting to note that India's hinterland or tier 2/3 towns is leading country's economic and corporate recovery from the pandemic. With renewed consumer sentiments post-unlock, the festive season sales are expected to be better than last year owing to pent up demand from previous quarters. Established bigger brands in the industry have experienced better traction and consumer pull, with higher preference for reliability and quality.

Corporate earnings has been strong across sectors led by demand recovery, cost savings including lower raw material costs. Many sectors are witnessing positive revenue growth. These include paints, utilities, consumer goods, metals & mining, technology, agro-chemicals, cement, auto and pharma. Offline retail, media sector (that thrives on discretionary advertising) and aviation are however likely to recover with a lag. Overall management commentary is up-beat on many sectors during the results season reflecting near normalisation or business activity returning back.

New World Order

Pandemic environment is resulting in for some interesting structural changes in business and consumption demand. There are several emerging investment themes that can boost local manufacturing in India. These are

- **Global anti-china sentiment** resulting in China+1 strategy for outsourcing from India apart from other non-China destinations. This may benefit sectors like pharma, chemicals & APIs, technology, home furnishing & garments, autos, precision engineering products.
- **Govt's thrust on import substitution is another theme that is likely to play out well over next many years** through raising of anti-dumping duty or providing production linked incentive (PLI) scheme. This may benefit sectors such as electronics, medical devices & mobile phone manufacturing, metals and even defence.
- **Digitalisation wave** has already accelerated by many years due to covid environment and can benefit technology service & platform providers, e-commerce companies across various verticals in retail, lending & insurance. Besides, this will drive greater consumption of gadgets and gaming.
- **Other theme includes shift from unorganised to organised** deep-pocketed players in a post covid era which will be positive for several businesses like branded apparels, plywood, footwear, jewellery retailing, staffing services, etc.
- **Higher health & hygiene consumption** is another area which is emerging as a high growth area drive spending on branded products, packaged food, nutrition & healthcare.
- **Besides, there will be an increasing thrust on automation and green technology** that will benefit players in robotics, AI (artificial intelligence) and renewable energy.

While we have a long way to go to become size of China, we, as a country need to capitalise on anti-China wave and stress on ease of doing business or improving labour productivity including land reforms. India has an inherent advantage of basic raw materials and low cost labour to be cost competitive in global landscape.

Equity market

Now Post a sharp rally over last few months, it may be reasonable to see some consolidation or correction including higher volatility as we approach US elections. However, we expect declines or **corrections to be short lived** given that incrementally factories & businesses are accelerating back to pre-covid levels amidst acceptance of Covid. Other positive driver for equity markets will be prolonged and unprecedented support from global central bankers to keep low interest rates along-with stimulus in pursuit to revive respective economies and consequent job growth.

From a **valuations perspective**, the erstwhile polarised market is becoming **broad-based**. In mid-small caps specifically, mean reversion of distress valuation is happening deeper down the market cap curve. We believe out of favour value opportunities exist and will outperform expensive quality stocks going forward. A number of companies are available at even 6-10x their normalised potential operating cash flows even though near term earnings will reflect muted but sequential revival. **In short, market will continue to be broad-based and any correction at best will be short-lived. Hence, trying to time the market is a futile exercise.**

INSURANCE

PANDEMIC AND THE INSURANCE SECTOR

Shri KB Vijay Srinivas
Director & Jt Addl charge CMD, United India Insurance Co. Ltd (Retd)

"It was the best of times, it was the worst of times,
it was the age of wisdom, it was the age of foolishness,
it was the epoch of belief, it was the epoch of incredulity,
it was the season of Light, it was the season of Darkness,
it was the spring of hope, it was the winter of despair ...,"

This phrase appears in the opening paragraph of Charles Dickens' novel "A Tale of Two Cities". It tells about a time of chaos, conflicts, and despair, as well as happiness. it talks about a distressed time when situation's exhibiting extreme opposites prevailed.

The world is passing through a disturbed period. Many of us would not have seen a crisis of this sort in our life . Countries closing down, borders erected where there were none, the economies coming to a near standstill, movement severely curtailed- and all of this happening globally. Nobody knew how to handle this and it was learning through experience on a daily basis.

India too adopted lockdown as a strategy. It started with a three week lockdown which kept getting extended. The withdrawal was slow and in phases going on for more than six months. We witnessed livelihoods being lost, people walking long distances to reach their villages from cities, business operations coming to a standstill and the economy being severely impacted . It was a time of great stress for many people, but even in this people found opportunities .

Just to showcase one instance. Reliance Industries came out with a rupees fifty thousand crore rights issue which was comfortably subscribed. This was the biggest issue till now. They further raised huge sums of money from across the world for their ventures. Many shrewd businessman saw opportunity in investing in operations which had gone down under and were available at good valuations. Fortunes were lost- but fortunes were also made. It is not over yet but recovery has been seen and things are rapidly coming back to normal.

The Insurance sector obviously has also witnessed many things during this period. It has been shaken from it's steady movement of the previous years. There have been some negatives but there have been positives too.

RECOGNITION- ESSENTIAL SERVICE:

Insurance along with banking and many other services was declared as an essential service and movement of personnel was permitted. This was a major development and has perhaps happened for the first time in the country. Insurance has always remained in the sidelines and this Pandemic has brought about a recognition of its criticality to people and also the economy.

IMPACT OF PANDEMIC

The pandemic has impacted the insurance industry in many ways. The industry and the regulator have played their roles in trying to make things easier for the insured persons. Certain shortcomings have been also there. As a speaker in a webinar hosted by this Institute a few months back on the likely impact of the pandemic on insurance, I had made certain propositions. Time has validated many of these.

PREMIUM INCOME:

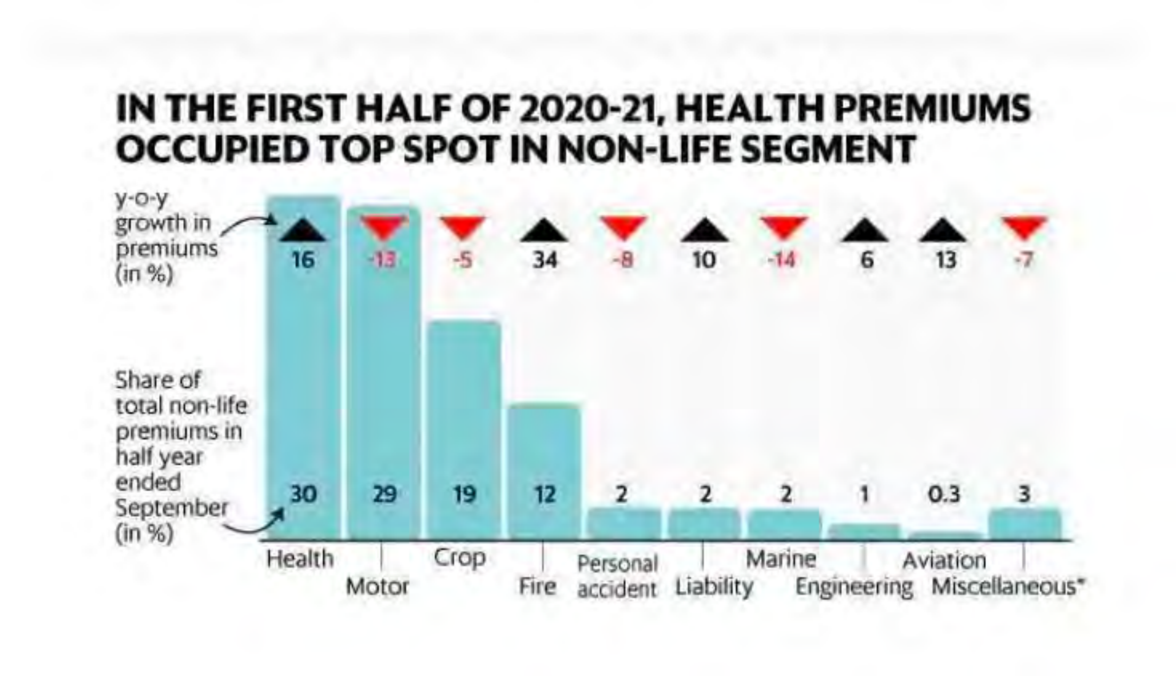
The first quarter undoubtedly reflected a negative trend. With movement restricted, this was unavoidable. The subsequent months have shown a reversal of this and the first quarter ended with a nominal growth of 1.37% at rupees 96,831 crores against 95,526 crores in the previous year. A look at the segments shows a drag in a few which stands countered by strong growth in others. The major segmental classification are Fire, Engineering,Motor, Health,Crop, Marine and other miscellaneous types of insurances. the behaviour of the major segments is examined here.

Fire insurance which has gathered twelve percent of the total premium of the industry has shown a growth rate of a whopping thirty four percent.

Health has been a major gainer, emerging as the biggest segment with close to 30% share of total premium with a growth rate of 16%. The pandemic along with huge hospitalization bills have created an awareness among people on the need for insuring themselves. Growth of individual policies out of the total health insurance premium has gone up from 36 % to to 41%. This is a clear indication of individuals rushing to take insurance or existing customers increasing their sum insured. Clearly health Insurance has emerged a winner.

Motor on the other hand has taken a beating and is down 13% and pushed to the second place by Health insurance. Of course the entire blame cannot be on the pandemic since the motor industry has been on a decline for the entire previous year. With economic activity restarting, commercial vehicle owners who would have postponed taking of insurance because of lack of business and funds would now come back and maybe by the end of the year they would be able to regain much of of the lost ground. However lack of new vehicles would definitely have its impact. Crop Insurance which is the third largest segment has also shown a negative growth of 5%. This again may not be entirely due to covid.

All told, the industry may not be too badly placed at the end of the year in terms of premium income.



CLAIMS

Expectedly Covid has caused an increase of health insurance claims.The persisting high level of Covid infections in the country has led to insurance companies getting a claims bill of Rs 7,700 crore as of October 30.While insurers have received 5.01 lakh claims for Rs 7,699.50 crore under the Covid insurance plan as of October 2020, they have settled 3.43 lakh claims worth Rs 3,315.5 crore, as per a report in The Indian Express. Although the average claim per person across India was Rs 1,53,453, the average settled amount was Rs 96,434 per person. Maharashtra, which reported the maximum Covid infections, also made the maximum Covid insurance claim of 1.97 lakh worth Rs 2,443.69 crore. Insurers settled 1.31 lakh claims worth Rs 1,060.4 crore till October 30, 2020 in the state. The average claim per person settled in Maharashtra was the lowest among states at Rs 80,558.

Motor Third Party insurance could show some savings in this period due to non-usage of the roads. It's a shame, but everyday 400 plus people die in road accidents in India. The lockdown perhaps saved thousands of people from road accident deaths. The insurance industry would get lower claims on this count.

DIGITAL

As with so many sectors technology ensured continuity of work. it was now possible for employees to work from home. In insurance too, this became the norm. Further, use of online platforms for business procurement has increased. This will get further momentum as people get used going online for their insurance needs too. For this, the insurers have to develop simpler products and also make their processes easier.

Insurers are likely to use technologies like AI, ML, IoT, Chatbots, drones, big data, predictive analytics, telematics and blockchain, to improve service delivery at all stages starting from solicitation to claim settlement and grievance redressal.

According toan article in Nasdaq.com, insurer's were concentrating mainly on using digital for business procurement so far. But now they have started looking at this medium for claims handling and soon there would be a lot happening in this field.

Microsoft is on to a new exciting field. Like weather reporting Microsoft is reported to be working on Microsoft Premonition which envisions predicting the distribution and evolution of microbes, viruses and disease-carrying animals in the Earth's biome, or the life around us. If the biome could be monitored like the weather, environmental pathogens might be detected earlier and outbreaks predicted before they cause large

STEPS TAKEN

Regulations:

The Government and the Regulator acted proactively to ensure that customer interests are protected.

* *The Government* by a notification extended the validity of health insurance policies which fell due for renewal during the period on and from the 25th March up to the 3rd May and who were unable to make payment of their renewal premium on
time. They were allowed to make such payment for renewal of policies to their insurers on or before the 15th May,2020, to ensure continuity of the health insurance cover from the date on which the policy fell due for renewal, so that any valid claim triggered during this period could be paid.

* They also mandated that industries and commercial establishments should insure their employees for health insurance.

The regulator, IRDAI, declared

* Makeshift hospitals were also to be considered as hospitals by insurers .

* Time limit for giving cashless approvals by insurers was hastened from three to two hours.

* Instructions to insurers on how to deal with networked errant hospitals which refused cashless treatment

Likewise grace period was given to Motor Third Party insurance policies.

* New Products: Disputes were coming up, with the insurers taking the stand that hospitals were overbilling. Further certain items like sanitisation of r.ooms, PPE kits etc were being disallowed as being out of the scope of the policy. To take care of these and similar issues,

IRDAI came out with two policies with standard terms and conditions to be used by all the insurers. These are called Corona Kavach and Corona Rakshak. These are of short duration and with relatively low cost which address the infirmities of the regular health policy with regard to Covid.

GI council, a representative body of all the insurers, *relaxed operation for SME's of a clause of intimation to insurers of properties unoccupied for more than thirty days in Fire policies.

The regulatory bodies were quite proactive and took steps to safeguard the individual customer's to a good extent.

GRIEVANCES

It has not been smooth running all through. According to a report in Moneycontrol, the Insurance Ombudsman has talked about a spike in complaints. One reason was the difference between what the hospitals have billed and what the insurers are willing to pay. Many Private hospitals have sharply escalated their costs and there have been various reports of their exorbitant bills. Insurers dispute these costs. The second cause for dissatisfaction is the insistence of some insurers on hospitalisation despite beds not being available in hospitals and the Government itself telling patients to treat themselves at home and go to hospitals only it was essential.

CONTROVERSY

In the initial stages there was a controversy whether claims due to a pandemic would be covered. This was quickly set at rest and routine claims are being paid. However the debate continued world over whether claims for Business Interruption due to Covid would be payable. In India this has been set at rest. These would not be payable as the policies are triggered only by a fire or related peril. Recently in Australia a ruling has been given in a test case that such claims would be payable and it has sent shock waves in the insurance industry in that country.

OPPORTUNITY - MISSED AND POSSIBLE

Insurers around the globe perhaps missed out on developing and marketing pandemic insurance over the years. Pandemic is not a recent word and holds its origins to the Sars episode in 2003-04. There was development of an insurance product but it did not take off in a big way. Wimbledon was in news as it had taken an insurance for pandemic and paid a premium of about US$ 32 million over about 17 years. They got a claim this year of around US$ 135 million when the event was cancelled due to Covid.

There is an opportunity for insurers to develop products for pandemic insurance and hopefully they should rise up to the occasion.

In India, the pandemic created awareness of insurance like never before. Of course this resulted in immediate buoyancy in health insurance but it was more of demand push from a panicking populace, rather than extra effort from the insurers to pull in business.

Maybe they were being careful not knowing the likely impact. This was and perhaps still is an opportunity to widen the net and bring in more customers into the fold. Time lost cannot be brought back, but at least now they can gear up to cover more people not only for health but also for other lines of business since awareness of insurance is increasing.

FUTURE

The future looks quite good for the industry in India. Much would depend on how well the insurers look at the opportunity. The pandemic has created awareness about insurance as never before. Health Insurance capitalised on the growing realisation that an insurance cover is necessary in the changing world . It would depend on how adeptly this awakening is made use of to propagate other lines of insurances.

The need to use technology during the pandemic lockdown has made many of the organisations realise on how dispersed working is possible and the need for going to offices has reduced. This would bring about a paradigm shift in the way insurance is done, for both the insurers ss well as those insured. One Life insurance company has already announced that they would drastically reduce office space and get employees to work from home. They have projected a saving in cost of about a hundred crores. Can the other companies be far behind?
Greater thrust will be there for development of newer technologies for use in operatations be it business procurement or operations or claims.

New pandemic related insurances could come up. They could be in the form of standalone policies or could be add on covers which could be taken by people by paying additional premium to their basic policies. With development of predictors like what microsoft is working on, new insurance products may become even more feasible.
Since the health portfolio is affeccted adversely due to covid claims health premiums would see an increase. While it would mean a bigger portfolio for insurers, for customers it would be a cause for concern.

Hopefully some archaic conditions in the policies would be relooked and new wordings which take care of such situations would emerge.

Coming back to Dickens' quote given at the commencement of this article, for the insurance industry these have not been the worst of times and could pave the way to the best of times.

REGULATORY AFFAIRS

"SEIGNIORAGE" DEMYSTIFIED

Shri Biplob Chakraborty
Former General Manager
Reserve Bank of India

The word seigniorage owes its origin to the ancient French word 'seigneuriage' which etymologically (Oxford Dictionary) connotes the right of a lord (seigneur) within the feudal system to mint and issue money. Historically over the ages Governments appropriated the real resources exercising monopoly over minting and issue of coins. Its implication is net transfer of real resources from the economy to state coffer. Thus, it is a form of taxation. In the present context the monopoly power to make and issue legal tender is conferred by the Governments to Central Banks which operate with varying degree of independence.

The currency notes which are legal tenders in India are printed by accredited presses and put into circulation by Reserve bank of India the central bank of the country. RBI Act has conferred sole right to RBI to make and issue currency notes which are legal tender in India. To make currency notes available to us our banks need either to borrow from RBI or give some eligible assets to RBI in exchange. Central Bank earns interests on its lending or receives returns on the assets so obtained in exchange for its created currency notes. The aggregate of these income net of the printing/ handling etc., cost of currency note which aggregate to a small fraction of face value of the notes, is seigniorage income of the central bank.

Seigniorage is the profit from cash management business. When fresh currency is issued and put into for circulation, revenue earned by the central bank equals the face value of the currency issued. The profit from the fresh currency issue is equal to the difference between the issue revenue and the costs of production of the issued fresh currency. For example, the issue seigniorage profit from issuance of one Rs 2000/-denomination currency note by RBI whose cost of production is Rs5(say) would work out to Rs 1995/-.

The central bank also receives opportunity cost revenue by way of interest earned on its portfolio of eligible securities (mostly government securities) forming backing of the currency in circulation. These securities are acquired by the central bank in exchange of currency in circulation. In effect, the holders of currency in circulation make an interest free loan to the central bank and voluntarily pays an opportunity cost tax by way of foregone interest earnings for holding cash in lieu of securities for 'enjoying non-pecuniary benefits (reduced transaction costs) using the fiat currency as a medium of exchange and a store of value'. Thus accruing seigniorage revenue net of costs of processing and replacing currency necessary for the maintenance of the currency supply system, is referred to as Opportunity cost seigniorage.

Currency holders incur loss of purchasing power of the cash balance held due to inflationary impact. Such loss in purchasing power of cash holdings implicitly involves payment of an inflation tax of amount equal to the loss of purchasing power of cash holdings and this inflation tax is another form of seigniorage earning for the central bank, which benefits from a reduction in the value of its liabilities.

Two primary sources of income of a central bank are (i) "seigniorage", arising by way issue seigniorage, opportunity cost seigniorage and inflation tax (ii) a tax on banks by way of statutory prescription of maintaining reserve deposit with the central bank at a nominal or zero interest rate paid thereon (in RBI's case, CRR is unremunerated). Seigniorage is the main source of central bank income. The seigniorage on the money issued by the central bank accrues to the latter, and part of it is returned to the Government. Seigniorage is mostly apportioned out of total income by most of the central banks who have not separated their balance sheet for note issue activities following Bank of England. Unlike monopolists who exercise control over existing resource, here 'the creator of money creates the resource itself by fiat'.

In a surplus liquidity scenario, the incomes of the central bank tend to decline. In surplus liquidity bankers deposit increasing amount of money under reverse repo operation earning incremental interest thereon from RBI. Increased deposition of money by banks has the effect of increased interest payment outgo for RBI while the such deposition has ultimate effect of decline in banks' balance with RBI / currency in circulation as also commensurate shrinkage of the base of seigniorage income. In maintaining the value of currency in the midst of excess inflow of forex to Indian economy RBI as per its discretion intervene in forex market to purchase dollar in exchange of rupee. Such operations add liquidity to the market augmenting forex assets in its balance sheet with concomitant commensurate increase in Banks' deposit with RBI / currency in circulation. Accrued forex to qualify as forex reserve are invested in safe and liquid foreign currency assets the returns on which are comparatively low. Thus, although the seigniorage base gets enlarged as an outcome of such operations, low return on incremental assets backed by the incremental seigniorage base tend to attenuate seigniorage income. The incremental liquidity which accrue to the system in the wake of forex intervention by the central bank may be subjected to sterilisation operation by the central bank to mop up excess stable liquidity if any in the system as per RBI monetary policy dictates through sale of assets. The resultant effect of the sterilisation operation would be shrinkage in income generating assets held by the central bank concomitantly with decline in currency in circulation/ banks' balance with RBI. Therefore, in a liquidity surplus scenario the possibilities of central bank income turning negative cannot altogether be ruled out.

In liquidity scarce economic scenario banks are borrowers (either outright or repo) from central bank. The amount of seigniorage income is governed by the proportion of banknotes and reserves on the liabilities side and the form of assets on the asset side. Most central banks in a Liquidty shortage scenario will earn positive seigniorage income as banknotes comprises a significant proportion of their liabilities and their lending to commercial banks is backed either by high-quality assets paying a positive rate of return or repurchase agreements at or close to the central bank's policy rate.

Brand'/reputation are important assets of central bank. Confidence in Fiat money as legal tender not fully backed by gold reflects the confidence in the central bank issuing it. Forward guidance by Central Banks would have been meaningless exercise in the absence of public confidence on and reputation of Central banks. Sole right to make/issue domestic currency confers central bank a franchise which yields a stream of future Seigniorage incomes not captured by conventional measures of central bank capital and not recognised in the balance sheet. The present value of the these future expected cashflows can be worked out and shown as an asset to prop up the capital of the central bank. The central bank 'brand' is not generally recognised in balance sheets as an asset. In this backdrop Lebanese central bank's recent act of recognising seigniorage as an asset in its balance sheet has raised a spate of controversies. However, it is of no wonder considering that many strange things have of late been happening in regard to distribution of this source of income (Seigniorage) of the central banks. The act is, however, not condemnable from accounting principles' point of view. Some opine that it is indeed odd that central bank's most valuable asset is not appearing in the balance sheet! For Central banks having their liabilities denominated in domestic currency the present value of seigniorage will always guarantee solvency. In other word a central bank can always print domestic currency to get rid of any solvency issues. However, the asset is indeed completely illiquid. In the aftermath of global financial crisis, quantitative easing resorted to by big central banks of the world have enlarged their balance sheets surging their seigniorage income. The present value of the future seigniorage incomes if worked out using ultra low interest rate as the discount rate would be tending to be exceptionally large , sounding like super solvency!

Banknotes issued form a basis of financial strength of the central bank. It has all intrinsic features of capital rather than debt. Notes in circulation are liabilities to Central bank which are virtually perpetual in nature but carrying no interest payment obligation. To the extent that net seigniorage income can be retained when needed by the central bank, equity can be rebuilt to take care of exigencies or when equity stands depleted by a negative shock. Evidently the depth of financial buffer available to central bank can gauged by the volume of notes in circulation.

Unlike commercial banks Central banks are not pursuing activities for profit seeking. Central banks may lose enough money to completely erode their accounting equity but still can continue to pursue successfully their activities to accomplish their policy objectives on the strength of the ability to generate seigniorage income using the notes in circulation. But the common public perception would be that a central bank with negative accounting equity would not be in position to function without compromising on its policy goals and effectiveness. In such eventualities the Politicians also may jump to the conclusion that wasteful use of public money resorted to by central bank requiring exchequer to fund the rescue operation! To prevent such misperception to arise the central banks should function with stand-alone funding ability to sustain all their activities to attain the underlying socially desirable policy objectives without compromise of any sort even in crisis situation! But the optimum quantum of financial resources needed by Central bank for the purpose is none too easy to fix! Optimal level may be defined as the quantum of resources that could be held without incurring higher opportunity cost of non-deployment thereof elsewhere in the economy! The connected issue of working out the quantum of surplus seigniorage income to be distributed to the owner would be resolved once the optimal quantum of resources needed by the central bank is known! What is needed is a statutory capital adequacy framework for central banks! If surplus distribution framework provides for retention of income to the extent needed, a large portion of banknote liabilities would provide base for income generation to rebuild the equity in the eventualities of its depletion by negative shocks. Clearly, the inclusion of banknotes makes a large difference to the sense of the scale of financial buffers available to central banks. Seigniorage is a source of financial strength for Central banks. Seigniorage income transferred by the central banks to their respective owners (Governments) is one important source to finance budegatry deficits.

BANKING

INDIAN BANKS IN ITS PRE & POST COVID REGIME

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Abstract:

The Indian Commercial banking sector continued their journey towards deterioration in their Asset Quality Management with interim reliefs. Statistical analysis portrays the devastation in terms of GNPA ratio, NNPA ratio, Net profit, performance of recovery channels all around till 2018. 2019 churned the NPA laden sector into a temporary sector with controllable and comparative better NPA shocks. Advent of Covid 19 in the year 2020 smashed the beauties of shadow income and unearthed the silver shell of harsh Covid provisioning, beggarliness of the both ticket borrowers, spontaneous outflow of funds for revival of economy and entities. The bygone past, unavoidable present crisis in banks can be reasonably tackled by the pool of professionals and experts like CMAs in the line of true and fair view of apt fund disbursement in the much needed segments who are equipped with ethical, legal and rational product planning process, structure and systems and compliance procedures so as to keep the banks unintentionally liquid, failing which post mortem of audit protocols would not glorify the future of the Commercial banks in India.

Banking statistics during 2008-2018: A glimpse on some specific ratios:

Asset Quality rating is an evaluation of credit risk associated with the assets. Effective management of Asset Quality lies in controlling and monitoring the credit risk. In the context of banking, assets include loans and investment portfolios**.** The growth of troubled loans in Indian banking sector increased substantially since the year 2013-14. Since 2009-10 the ratio of Non-performing assets (NPAs) to total advances started moving upward but the rate of NPAs till the year 2013-14 was lower than the world's average.

During the year 2009-10 and 2013-14, the rate of NPAs was lesser than the world's average at

3%, after which the world's rate got stabilized at 4% but the rate of Indian NPAs trembled up. Further in between the years 2014-15 and 2016-17, the NPAs went up from 4.3% to 9.6%, the average growth rate of NPAs was at 7%. With regards to the value, the NPAs which amounted to Rs. 59400 crores in the year 2004-05 moved up to Rs. 790268 crores in the financial year 2016-17 and to Rs. 1039000 crores in the year 2017-18. The annual Gross NPAs (GNPA) ratio of the nationalized banks for the year 2005-17 was 4.55% and in case of Private Sector Banks (PVBs) it was 2.65%. The elevation which was majorly in the Public Sector Banks (PSBs) accounted for NPAs in both priority and non-priority sector, with the latter spiking. The priority sector NPAs was at 61.5% during the year 2008 and it fell down to 23.5% during 2017 and in 2018 it came to 22% and again in the same period the swing in the NPAs in non-priority sector came to 76.5% in 2017 and 79% in 2018 from 37.1% during 2008. On a whole the GNPA ratio for Scheduled Commercial banks was 11.18. The Capital adequacy ratio maintained for all the Public and Private sector banks during the year 2018 averaged at 11.20 and 15.35 respectively.

Operation and Performance of Commercial Banks for the period 2008-2018:

Indian banking sector has undergone a paradigm shift in the past two decades right from the transition of the manual banking operation to the automated banking embracing the advent of technological up gradation but without any spectacular improvement in the Asset Quality Management. With a fall in the Asset Quality the deterioration in the financial performance also continued in terms of reduced profits, decreased rate of returns and overall de-growth. The profits of the PVBs are more or less stable than the PSBs.

The table below indicates the profits of Public sector Banks [PSBs], Private Sector Banks [PVBs], Scheduled Commercial Banks [SCBs] and also includes State Bank of India & Associates [SBI & Asso] for the period 2008 to 2018.

Bank Group wise Annual Net Profit before Appropriation

(Figs. in Millions)

YEAR	SCBs (Rs.)	PSBs (Rs.)	PVBs (Rs.)	SBI & ASSO (Rs.)
2018	-324377	-853705	417833	NA
2017	438995	-100060	422041	-13827
2016	341482	-295824	413137	115894
2015	890778	212380	387347	163020
2014	809127	233503	337541	136686
2013	911647	327994	289954	177833
2012	816583	341802	227180	153336
2011	703313	330378	177116	118629
2010	571092	268243	131114	124326
2009	527499	224769	108676	118957
2008	427259	175859	95219	90058

Source: www.rbi.org/statistical tables of RBI

With respect to Recovery Channels:

The recovery channels were not at all strong and also in addition to that the banks had to do away with their piling bad loans, started selling off the bad assets to Asset Reconstruction Companies (ARCs), other banks, financial institutions and non- Banking Financial Institutions (NBFCs) by taking haircuts. The problem turned to be graver with passage of time, but recent introduction of Insolvency Bankruptcy Code 2016 (IBC 2016) emerged as a linchpin, softened out the bad loan problems by improving the debtor creditor relationship, expedited the process of collection due to its time bound resolution process

During 2019 and 2020:

The Gross NPA for the Public sector banks was Rs. 739541 crores and Net NPA was Rs. 285222.77 crores. Going forward to the private sector banks the Gross NPA was Rs. 183603.66 crores and Net NPA was Rs. 67308.86 crores. The GNPA ratio of the Public sector banks was 11.59 and for the Private sector banks was 5.25. The GNPA ratio for Scheduled Commercial banks 9.08 and during March 2020 it has become 8.5% as highlighted by RBI with reference to the Financial Stability Report.

The Capital adequacy ratio maintained for all the Public and Private sector banks during the year 2019 averaged at 11.54 and 15.60 respectively. The Net Profit for Public sector banks for the year 2019 was Rs. 666080 million. The recovery of bad loans in case of IBC during the year 2018-19 was to the extent of Rs. 70000 crore, at a rate of 43%, was almost the double of the other recovery channels like DRTs, LOK ADALATs, SARFAESI Act, which was at Rs. 35500 crore, at 26.5%.

From the Fiscal 2020, by virtue of Global shocks in the name of Covid 19, pandemic, the banks, industries & economy at large bore the pain of breathless survival. The loss, gaps and rejuvenating strategies all over to float on the surface of challenges with remote possibilities of bouncing back to old normal scenario made the past performance a memorable history.
New normal growth with refurnished approaches are what todays' plenary all around.
The provisioning norms also included Covid-19 provisioning. The table below shows the provisioning in the June quarter:

Particulars	June 2020	% Change on Q-O-Q Basis
Covid provision	16878.4	22.8
NPA provision	39547.8	-27.7
Net Interest Income	119658	15.2
GNPA	827769.2	12.1

The banks after the Covid 19 outbreak, as a part of RBI's regulatory measure to arrest the pandemic impact across the nation, declared the facility of moratorium of interest payment falling due between March 1st 2020 to 31st August 2020 to the eligible borrowers.

The provisions were kept on hold by the banks as per the instructions. 2020 embarked on the Covid provisioning which went up by 22.8% amounted to Rs. 16878.4 crores by tapering the provisioning of the toxic assets in the June quarter.

In contrast with the Public sector banks, Private sector banks reported higher Covid provisioning amounting to Rs. 11175.1 crore. Covid provisioning made by the Public sector banks figured at 5703.3 crores.

Some of the noteworthy banks of both Public and Private sectors made their Covid provisioning in values during both March and June quarters of 2020 are tabulated below:

	March 2020	June 2020	% change
ICICI	2725	5550	103.67
SBI	1172	1836	56.67
HDFC	1550	1000	-35.48
Bank of Baroda	811	998	23.06
Indusind Bank	260	920	253.85
Bandhan Bank	690	750	8.70
Canara Bank	94	746	693.62
Axis Bank	3000	733	-75.57
Yes Bank	238	642	169.75
Bank of India	415	620	49.40

The above table shows that out of a sample of 10 banks of both Public and Private sector, the 4 Public sector banks except Canara bank made reasonable % change in the provisioning for Covid. Tremendous change in the provisioning is observed in case of Canara Bank, looking at the Private sector banks, Axis bank and HDFC Bank lowered their provisioning amount considerably. Rest of the 4 Private sector banks made an upward growth in Covid provisioning.

Critical evaluation of Asset Quality of the Indian Commercial Banks before after threat of Covid 19:

The Asset quality diminished gradually over a period of time. Right after the 2008, Global Depression the massive downfall started, though not an unknown history in the bygone years. Continuously for a period of 11 years from 2008 to 2018, the Public sector demonstrated in its various performance metrices the footprints of abysmal deterioration. The signs of recovery became insignificantly prominent in the financial year 2019. Almost all the banks of either sectors recorded a surprising dip in the growth rate of trendy NPA, a paradox indeed.

The reasons for such incompatible outcomes can be attributed to Non-interest income, reduced interest on deposits, less income from treasury, contraction in the provision on the advances made and by and large due to shadow incomes.

During the year 2020, the real picture became topsy-turvy due to the pandemic effect and the resultant booster dosages forwarded for the revival of the affected sectors, with MSMEs predominating kept ills and pains of the banking sector subdued. Present moratorium and thereby consequently revising the norms of the provisioning schemes cannot unearth the truth of the NPA. Prediction from macro-stress test says that by the end of March 2021, the GNPA ratio of the Scheduled Commercial Banks may jump to 14.7% if the environmental threats are not falling in the framework of checks and balances. The sole blame game of Covid 19 is a term for official rescue. The fundamentals became worsened since inception.

The collections became drastically low due to loss of income, job insecurity and more so non traceability of the customers. NPA may surge upto or even more than 15% and in addition to this the lending activity also got hampered and only the small tickets are funded with 2 months tenure and 33% interest rate per annum under app based system where zero manual interference exist and the customers' accounts are credited with the loan amount within a couple of minutes post KYC compliance.

The strengthening of the banking entity depends and lies in the hands of the policy makers, RBI and government as a whole. The perennialism of the NPAs would be a mammoth task to uproot but checks and balances should fall in place to continue. Trial with repeated mergers, taking in and out of the framework of the Prompt Corrective action and such other repeated efforts could not considerably bring down the massive rate of growth of NPAs. The loophole in the system needs to be unearthed by subduing the crony capitalism, controlling scepticism, establishing sacrosanct approaches to route the fund movement and to strengthen the Audit procedures. The nationalized banks are primarily meant for the social welfare and therefore should deal loyally with the public money, as inspite of known consequences of defaults of borrowers of the society the Public sector banks are compelled to pump in the fund for the growth and survival. So, the ways and means to be adopted to control the unforeseen and adopting the measures to unlearn and relearn the age-old audit protocols with artificial accuracy and in place should substantiate the expertise of Cost & Management Accountants for minute clarity in the management of the toxic assets of the banking sector. CMAs are adequately capable in vetting the Techno Economic Viability [TEV] reports of Industrial and business units as they are authorized professionals.

The current scenario demands the need of the scrutiny at a granular level with emphasis on cost, efficiency, productivity and profitability analysis segment wise and product wise to evaluate the strategic and operational performance and in this juncture the CMAs are key drivers to strengthen the efficacy of multiple segments by nurturing their professional skills and expertise. The financial and non-financial information both are equal prerogatives for the judicious disbursements of the banking entity.

The present business house needs to be recycled following the theory " start from the scratch" so right from the embryonic stage till the ultimate development, tactfulness needs to be exercised to execute and therefore the finance and profitability would be a dream of future and the present needs to be refurbished with quality sensitive and cost effective mechanisms and there the Cost & Management Accountants would be capable to reengineer the structure in the production atmosphere and on the other hand can be instrumental in policy making matters towards fund disbursements and management.

Pre-Covid dealings in the fore front of the commercial enterprises and banks are over inclined on the financial routine examination which vigorously lacked in the disclosure of actual and factual resulting into fund distribution illusion and obvious heaps of irrecoverable. Covid 19 is an option to off load the burden majorly to the borrowers and defaulters who if aptly handled and stitched in ethical framework would have ended with considerable disasters. Now post Covid banks are swinging with financial package announcements for the most coveted revival and hence in future the lending ceremony should demonstrate some measures of common sense in terms of Cost Audit, scrutiny of the product and services, true ratio of installation and utilization capacity, product cost structure to ensure the returns of the banks which all together will secure the safety and surety of the banks, entity and economy.

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TECHNOLOGY

THE MACHINES ARE COMING ... MACHINE LEARNING IN FINANCE

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"Torture the data, and it will confess to anything."
Ronald Coase

Abstract

"Thanos is coming...he's coming" This warning from a visibly shaken Hulk in Avengers: Infinity War sent a chill down the spines of all those watching. Thanos's goal was to solve the problems of the inhabited universe by randomly culling half the population of every planet.

The goals of Artificial Intelligence (AI) & its sub-set Machine Learning (ML) are not so sinister. Nevertheless, since AI aims to imitate the human mind, it is imperative that our strategies unfailingly include both, a failsafe, & a fall-back plan.

Introduction

Readers will be familiar with an endearing advertisement wherein Amazon's "Alexa" is narrating a bedtime story to a little girl. The father dozes off in mid-story & the girl whispers "Alexa, what sound does a lion make?" The roar from Alexa resoundingly shakes the father out of his nap, while the girl bursts into peals of delighted laughter.

That was Machine Learning making life easy & fun.

What is Machine Learning?

"Machine learning is the study of computer algorithms that allow computer programs to automatically improve through experience." Tim Mitchell - Machine Learning, McGraw Hill, 1997

Algorithm *"a process or set of rules to be followed in calculations or other problem-solving operations, especially by a computer."* (*https://www.lexico.com/definition/algorithm)*

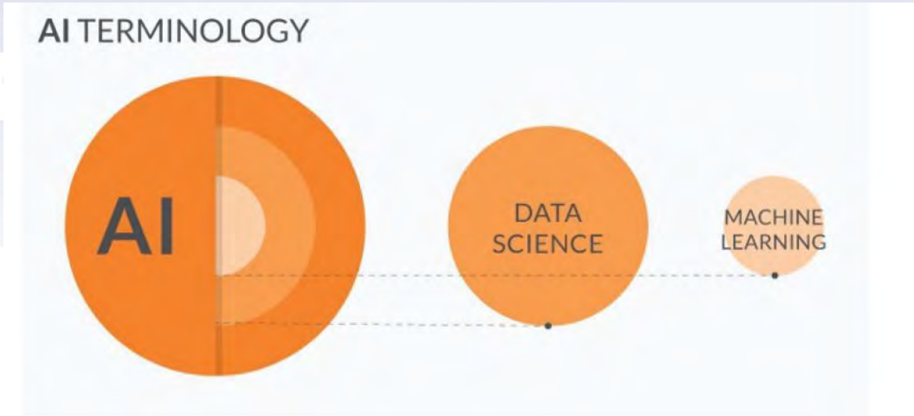
At an elementary level, a recipe is also an algorithm. It is a set of rules, with pre-defined steps in a given sequence, with a final result/solution viz. food.

ML is a branch of AI. Suppose you load an ML program with a large data-set of financial performance of companies, ratios & other metrics, as well as relevant news & peer comparison; & then also provide data on share price movements of the companies for these entire periods (along with comparable prices of competitors & the market movements). The model should be able to assist with or even independently analyse the data & make investment recommendations. The depth of analysis & reliability of final output depends on both, the program itself, & the data provided to it. Remember GIGO? (Garbage In Garbage Out). Today, chess applications are equipped with extremely powerful programs as well as humungous data on over 200 years of past games. No one can say it better than *Magnus Carlsen* who is regarded by many as the best chess player in human history – *"Playing a computer is like playing someone who is extremely stupid but who beats you anyway."*

Deep Learning & Neural Networks are advanced branches of Machine Learning; each finding increasing use in several applications that affect, indeed – direct our everyday lives!

Is ML the same as AI?

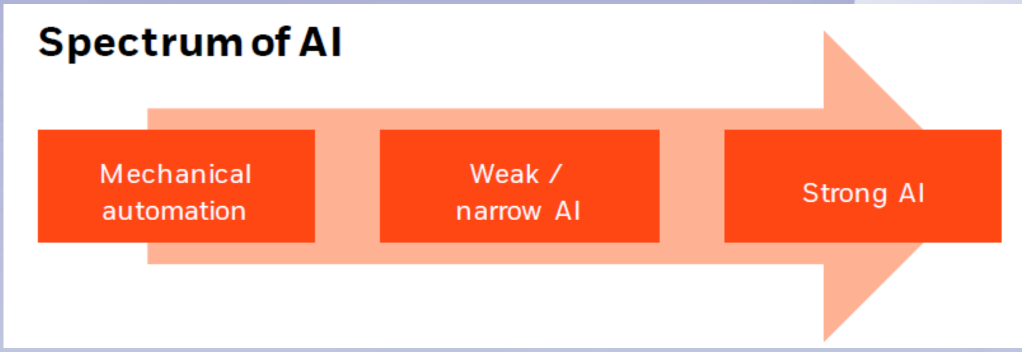
No, ML is a branch of AI. "*Artificial intelligence is the science and engineering of making computers behave in ways that, until recently, we thought required human intelligence." Andrew Moore.*



"The magic about machine learning solutions is that they learn from experience ***without being explicitly programmed.*** *To put it simply, you need to select the models and feed them with data. The model then automatically adjusts its parameters to improve outcomes."*

(Machine learning in finance: Why, what & how. Kondtantin Didur – Towards Data Science, July 11, 2018)

Deep Blue, the AI which defeated then world chess champion Garry Kasparov in 1997 used "tree search algorithms" which evaluated millions of options at every move.

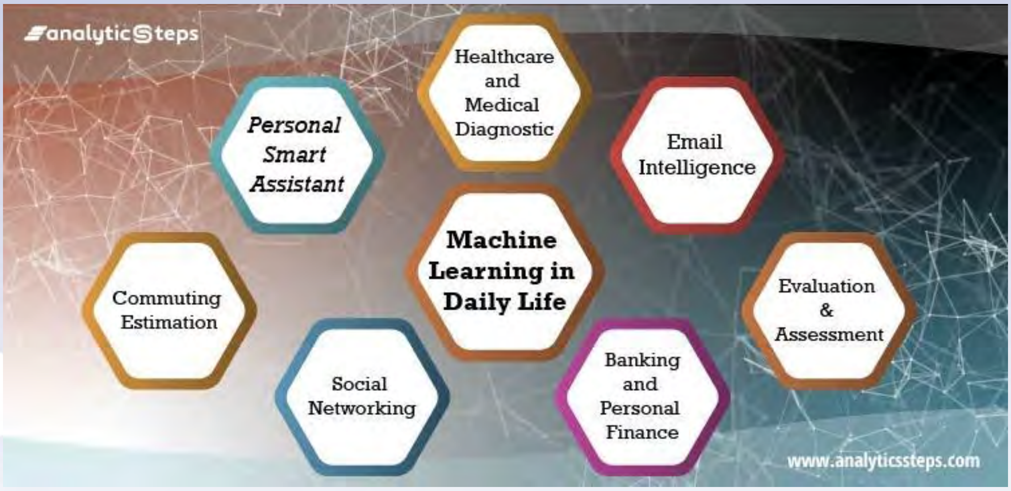


(Artificial intelligence and machine learning in asset management. BlackRock Public Policy/ViewPoint – October 2019)

At present, even the most advanced AI is "Weak or narrow AI"

<u>Where is ML used?</u>

In our everyday lives



(https://www.analyticssteps.com/blogs/7-popular-applications-machine-learning-daily-life)

<u>What are the benefits?</u>

- Lower costs
- Time saved
- Fewer (target none) errors
- Higher profits
- Robust transaction trail
- Better checks & balances
- Compliance
- Seamless integration across modules & avoidance of duplication

In finance, ML is used in: (list is not exhaustive, scope is dynamic & expanding)

1. Financial Services & Portfolio Management – Robo-Advisors
2. Algorithmic Trading
3. High Frequency Trading (HFT)
4. Fraud Detection
5. Banking
6. Insurance
7. Risk Management
8. Chat-bots
9. Document Analysis
10. Trade Settlements
11. Money-Laundering Prevention

1. Financial Services & Portfolio Management – Robo-Advisors

These are online services which use mathematical algorithms (& it goes without saying, big data) to provide investment advice, portfolio monitoring, asset diversification, portfolio rebalancing & portfolio analysis. Contrary to the belief that automation suits standardized services best; these robo-advisors can actually provide a unique solution to each investor, based on the financial status, financial goals, & risk profile. The online form which the prospective investor completes is vital since it is the prime source of individual requirements which the model uses.

"Robo-advisors allow savings on labor and real estate, two of the largest costs for traditional investment management firms.

Today, robo-advisors manage over $50 billion worth of assets. Industry reports project that figure could reach $7 trillion in the next 10 years."

(https://insuranceblog.accenture.com/where-are-robo-advisors-being-used-today)

To give readers a perspective on the projected size of the robo-advisory market, India's GDP in 2019 was $2.875 trillion. *(Source: https://data.worldbank.org/country/india)*

Tax-loss harvesting

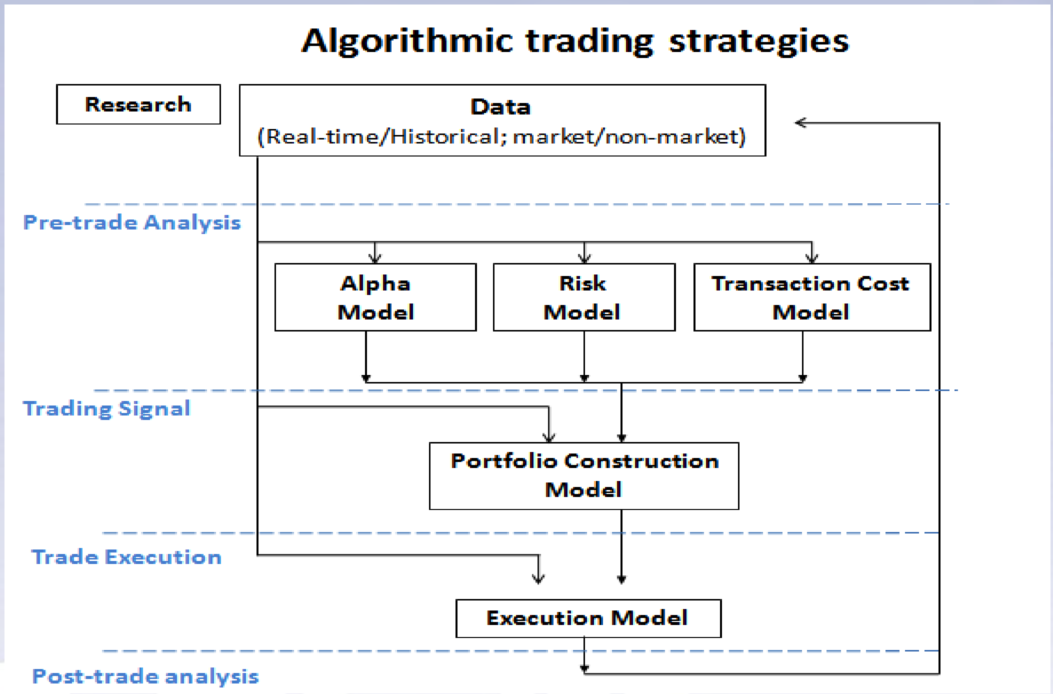
"Tax-loss harvesting involves the sale of securities at a loss in order to save on capital gains tax, typically done towards the end of the tax year. By selling a security at a loss, investors avoid paying taxes on that income.

At the same time, it is important to invest in a similar security in order to maintain the portfolio allocation and reap the rewards of an upturn in the markets. Robo-advisors automate the process, allowing users to benefit from tax-loss harvesting effortlessly."

(https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/robo-advisors/)

2. Algorithmic Trading

"Algorithmic trading strategies involve making trading decisions on the basis of pre-set rules that are programmed into a computer."
(https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/algorithmic-trading/)



A simple example:

* Buy if P/E ratio < 20 & CMP > 200 day EMA & 50 day EMA > 200 day EMA

Where:

P/E ratio	=	Market price per share / Earnings per share
CMP	=	Current market price
200 day EMA	=	200 day exponential moving average (price)
50 day EMA	=	50 day exponential moving average (price)

In the above case, the software will constantly monitor the universe of stocks programmed in advance, for example an index or a specific industry & so on. The buy quantity or value will also be pre-programmed. As soon as a security in the target market meets the three conditions, the software will execute the buy order without any human intervention. The three conditions being:

a) The CMP must be less than 20 times the EPS, &
b) The CMP must be > 200 day EMA, &
c) The 50 day EMA must be > 200 day EMA

Algorithmic models allow trading on multiple markets, have no emotions, & learn constantly. Hong-Kong based Aidyia is the first completely autonomous hedge fund.

"If we all die, it would keep trading." Ben Goertzel, the company's chief scientist.

Dangers Lurk

"On May 6, 2010, the Dow Jones Industrial Index slumped nearly 1,000 points, losing almost 9% of its value in minutes. What quickly become known as the "Flash Crash" had wiped more than $862 billion off the American stock market." (https://asiatimes.com/2019/05/why-algorithmic-trading-is-dangerous/)

This was blamed on algorithmic trading. One mutual fund sold a substantial number of futures contracts thru its algorithmic trading software. This led to huge buying & huge selling ("hot potato" effect) by several other entities leading to market mayhem.

Within 20 minutes after this, the market recovered almost 70% of losses in this flash crash!
Algorithmic trades now account for over 75% of global trading volume.

3. High Frequency Trading (HFT)

These trades require high communication and computing speeds. The traded quantities are astoundingly large, profit per trade is miniscule, & the software infrastructure is complex & expensive.

Colocation: *"In the rush for speed in trading, exchanges are building huge data centres where members, non-members and traders place computers containing their trading algorithms next to an exchange's matching engine, which matches 'buy' and 'sell' orders. Otherwise known as colocation, the practice shaves crucial milliseconds from the time it takes to complete a trade."*
By Mark Cooper, Business Development Manager at Exponential-e: 17/01/2013: Global Banking & Finance Review.

Latency: is a measure of the time between the sending of a signal & its receipt by the intended recipient. In financial markets: the time from a request to a response. With lower latency, the HFT software can see a price or an unfulfilled order before the others & hence benefit from what is called *Latency Arbitrage.*

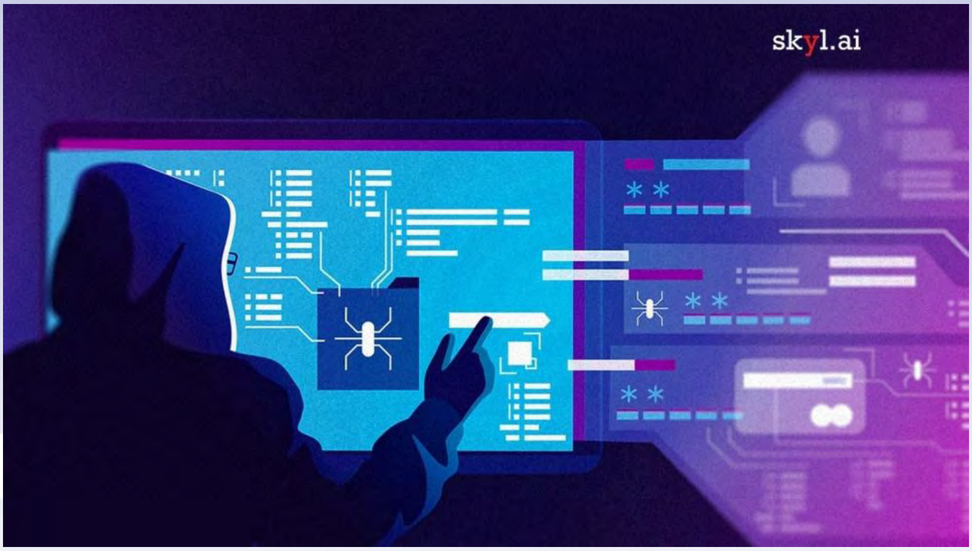
"Latency arbitrage is one of the ways high-frequency traders profit to the detriment of slower trading investors. It involves arbitraging prices gleaned with a low latency - in fractions of a second - from certain exchanges. Better prices are snatched up by high frequency traders before regular investors."

(High-speed traders cost regular investors almost $5 billion a year, study says. Published Mon, Jan 27 20201:57 PM EST. Michael Sheetz. https://www.cnbc.com/2020/01/27/latency-arbitrage-trading-costs-investors-5-billion-a-year-study.html)

A microsecond is a millionth of a second!

The speed of light has become a limiting factor in trading!

4. Fraud Detection



Have you made a credit card payment which is not in-line with your usual spending habits? Or made a large payment? In all probability, you received a call &/or message from your credit card company, asking for your confirmation. Sometimes, the transaction may be rejected outright. We should appreciate the brilliant algorithms that identify unusual patterns & protect us.

There will be "false positives" where some genuine transactions are questioned or rejected. It is critical to prevent too many false positives (which inconvenience the customer), while at the same time ensuring almost zero "false negatives" – where the system clears a transaction as legitimate, when it actually isn't.

There are several instances across the entire gamut of financial transactions where ML helps to detect fraud.

5. Banking

Almost all banking transactions are automated & can be accessed using the ML backed platforms provided by the bank.

Credit scoring, loan limits & approvals, credit card limits & upgrades, investment offers…the list goes on.
The systems are constantly learning & evolving, attempting to squeeze out errors, while remaining ever vigilant & helpful.

6. Insurance

Insurance companies use ML to respond to your queries, provide details of your policies, register & often approve claims, monitor for fraud, underwrite new business …etc.

ML & AI can also assist insurance providers to anticipate the losses which could occur due to a natural calamity like an earthquake, hurricane, or floods. Using big data, they can offer customized solutions for business needs, & update actuarial & underwriting tables to remain relevant. The company with the most competitive rates, fastest claims settlement, & highest percentage of claims settled will be preferred.

Lemonade Insurance Company in New York has automated the end-to-end insurance process. It promises to issue a policy in 90 seconds, & to settle a claim in 3 minutes.

7. Risk Management

An adequate risk management system must not only be alert, but also wary of complacency. In good times, all risk management systems appear robust. Under stress, most systems are found wanting. Some of the risks are:

- Operational risk
- Technology risk
- Third party risk
- Model risk
- Regulatory risk

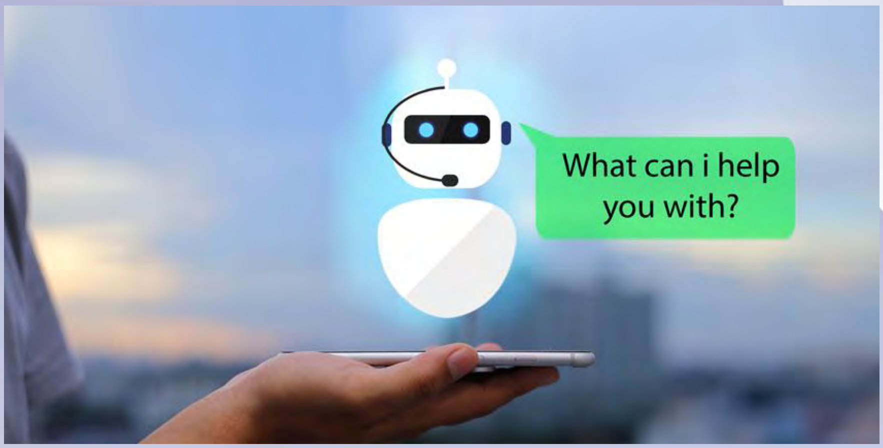
"AI could allow risk managers to respond faster to new and emerging exposures.
By acting in real time and with some predictive capabilities, risk management could reach a new level in supporting better decision-making for senior management."

(Extract from the Executive Summary of Artificial Intelligence Applied To Risk Management published by FERMA – Federation of European Risk Management Associations."

8. Chat-bots

Robots that chat!

"At the most basic level, a chatbot is a computer program that simulates and processes human conversation (either written or spoken), allowing humans to interact with digital devices as if they were communicating with a real person." (https://www.oracle.com/in/chatbots/what-is-a-chatbot/)



9. Document Analysis

J. P. Morgan developed a proprietary ML algorithm, COIN (COntract INtelligence). This tool processed 12,000 credit agreements in seconds – instead of 360,000 man-hours.

10. Trade Settlements

This is the process whereby the buyer of securities receives securities credited into her account, while the seller's bank account is credited with the sale proceeds. Most trades are settled automatically without human intervention. However, some trades are not settled – or fail.

ML can help with identifying the reason for failed trades, it can analyse why they failed, & it can offer predictive guidance on which trades may fail in future.

11. Money-Laundering Prevention

"The estimated amount of money laundered globally in one year is 2 - 5% of global GDP, or $800 billion - $2 trillion in current US dollars. Though the margin between those figures is huge, even the lower estimate underlines the seriousness of the problem governments have pledged to address."

(https://www.unodc.org/unodc/en/money-laundering/globalization.html)

ML is working proactively with global regulators & governments to identify & hopefully, curb this menace.

Caution

AI & ML can prove to be a boon. We must never cease to be watchful though – especially with respect to ethics, & to the danger of losing control over this constantly evolving, increasingly powerful creation.

"AI doesn't have to be evil to destroy humanity – if AI has a goal and humanity just happens to come in the way, it will destroy humanity as a matter of course without even thinking about it, no hard feelings." Elon Musk

Parting Thought

"पहले हर चीज़ थी अपनी मगर अब लगता है
अपने ही घर में किसी दूसरे घर के हम हैं"

Pahale har chiz thi apani magar ab lagata hai
Apane hi ghar men kisi dusare ghar ke ham hain

Lyricist: Nida Fazli, Singer: Jagjit Singh, Music Director: Talat Aziz, Album/Movie: Mirage (1996)
In the past everything was ours but now it seems like

We are strangers in our own home.

E&oe. Without prejudice, without recourse.

Disclaimer

No investment recommendations are being made by the author. This is neither an invitation to invest, nor an encouragement to follow any particular style of investment or analysis.

The author welcomes technology & progress; but requests that man be the master of his tools, not the other way around.

Every tool is only as good as the person wielding it. There is no error-proof tool or investment theory. All market investments carry risk.

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CAPITAL MARKETS

INVESTMENT OPTIONS IN CAPITAL MARKETS

Shri Sudhakar Kulkarni
Certified Financial Planner

Indian Economy is quite vibrant and there are lots of opportunities for investments in Indian Capital markets. Due to Covid-19 pandemic overall world economy has been adversely affected and Indian economy is no exception to it, however since last month Indian economy is showing signs of revival which is evident from increasing demand in automobile, consumer goods, mobile handsets. This has been reflected in stock market, banking transactions and turnover of companies like Flip cart, Amazon etc. Resultantly investors are getting attracted towards capital market.

Before understanding the investment options in Indian capital Market, let us understand some basics of capital markets.

Capital markets is the place where savings and investments are exchanged between the suppliers who have capital and those who are in need of capital. The entities that have capital include retail and institutional investors while those who seek capital are businesses, governments, and people. Capital Market is a broad concept, however, before understanding the Capital Markets in India, one has to consider the broader framework of Financial Market of which Capital Market is a part and even before that one shall dwell upon the even broader term 'market'. A market is nothing but a place where two parties can gather to facilitate the exchange of goods and services. Financial Market just like an ordinary market acts as a platform where two parties meet to exchange money or instruments which are convertible into money. It acts as a link between two different groups, one who invest money or lends i.e. having surplus money and the other, who borrows i.e. having deficit money. Market acts as conduit between the borrowers and lenders of money or sellers and buyers of instruments.

Capital markets are composed of primary and secondary markets. The most common capital markets are equity market and debt market. The primary **market** - consists of IPOs, FPOs bonds, private placements, etc. Here, companies raise funds for proposed expansions or meeting their working **capital** requirements by issuing shares, debentures to the public for the first time. Where as in secondary market, Securities issued by a company for the first time or subsequently are offered to the public in the primary market. Once the IPO/FPO is done and the stock is listed (in case of IPO), they are traded in the secondary market. The main difference between the two is that in the primary market, an investor gets securities directly from the company through IPOs/FPOs/Right Issues, while in the secondary market, one purchases securities from other investors willing to sell the same.

Equity shares, bonds, preference shares, treasury bills, debentures, etc. are some of the key products available in a secondary market. SEBI is the regulator for both primary and secondary markets.

In addition to the capital market there is one more market which is known as money market. The **money market** refers to trading in very short-term debt investments. At the wholesale level, it involves large-volume trades between institutions and traders. At the retail level, it includes **money market** mutual funds bought by individual investors.

Let us now see various options for investments in Indian Capital markets.

Options in Debt Market:

Bond, Debenture, Company Deposits, Debt Mutual Funds P2P (Peer to Peer Lending)

1) Bond: This is long-term Debt Instrument having maturity between 5 to 20 years, mainly issued by Central & State Govt, Municipal corporations and corporates to raise the long-term funds instead of taking loan from the banks. Any resident Indian singly or jointly can invest in bonds. Investment in Govt. bond is safe and gives regular income, however interest is lower than normal interest offered by banks or post so also it carries interest rate risk Bonds are having secondary market however market value increases with decrease in interest rate and vice versa. Major participants in this market are banks and financial institution and retail participation is negligible. (recently RBI has come out with Floating Interest Rate Bonds with tenor of 8 years and interest floating on NSC interest which will be NSC Interest+0.35 changeable &payable half yearly on 1st Jan and 1st July every year)

2) Debentures: Debentures are issued by businesses and are used to raise capital. An investor investing in a debenture is investing in a company and should understand that company's specific risks. Both individual and institutions can invest in debentures.

i. Debentures provide a fixed, regular and stable source of income to its investors.
ii. Investor enjoys the status of a superior creditor in the event of liquidation of the company.
iii. Many investors prefer debentures because of a definite maturity period.
iv. A debenture is usually more liquid investment and an investor can sell or mortgage his instrument to obtain loans from financial institutions.

v. The interest of debenture-holders is protected by various provisions of the debenture trust deed and the guidelines issued by the Securities and Exchange Board of India in this regard.

However,

i. Debentures do not carry any voting rights and hence its holders do not have any controlling power over the management of the company.
ii. Market price of the debenture changes inversely with change in interest rate.
iii. There is uncertainty to some extent about the redemption on due date.

3) Company Deposits: Company Fixed Deposit (corporate FD) is a term deposit which is held over fixed period at fixed rates of interest. Company Fixed Deposits are offered by Financial and Non-Banking financial companies (NBFCs) and also by pvt. companies. The maturities of various company fixed deposits can range from three to five years. One can get higher return by investing in company FD.

Word of caution: while investing in corporate bonds, debentures & company FDs one should consider the rating and should avoid investing where the rating is below A.

4) Debt Funds: A debt fund is a Mutual Fund scheme that invests in fixed income instruments, such as Corporate and Government Bonds, corporate debt securities, and money market instruments etc. that offer capital appreciation. Debt funds are also referred to as Fixed Income Funds or Bond Funds.

A few major advantages of investing in debt funds are low cost structure, relatively stable returns, relatively high liquidity and reasonable safety.

Debt funds are ideal for investors who aim for regular income, but are risk-averse. Debt funds are less volatile and, hence, are less risky than equity funds. If you have been saving in traditional fixed income products like Bank Deposits, and looking for steady returns with low volatility, debt Mutual Funds could be a better option, as they help you achieve your financial goal in tax efficient manner resultantly give better returns.

5) P2P Lending: This is the new avenue for investment in Indian capital market. Peer to peer (P2P) lending platform is a marketplace that connects individuals in need for credit with individuals and willing to lend. Your invested amount can be given as loan to the people having different risk-buckets, tenures, and principal amounts. Spread your investment across a large number of borrower profiles from different location, gender, occupation etc. Higher the diversity in your portfolio, higher the spread of risk and you can expect return between 10 to 14%. Maximum individual can invest Rs.10 lakh without CA certificate and Rs.50 lakh with Ca certificate. Individual can take loan maximum Rs.10 lakh however one lender can lend only up to 20% of loan asked for. Loan is given for minimum six months and maximum three years. Individual having risk appetite should invest to get higher return.

Investment options in Equity Market:

1. Shares: Investment in shares of listed companies is one the major options of investment in equity market. Investment in shares can be done through primary

market by applying for IPO/FPO/Right Issue. In primary market shares are issued to the investor by the company coming with public issue to raise the capital by way equity. Normally people invest in primary market with expectations that they will get the shares at cheaper price but it is not true all the times. In recent past number of company's shares were listed at lower price that the cut of price (price at which share was allotted). While applying for IPO/FPO there is no guarantee that applicant will get the shares allotted and even if allotted how much shares will be allotted is also not guaranteed and chances are that you may not be allotted shares at all. Still then if you wish to have the said company's shares you can purchase the same from the secondary market. For investment in shares you need to have d-mat account since now shares allotted or transferred only in electronic form. Your d-mat account is credited with equivalent number of shares that you have purchased. whereas your d-mat account is debited with equivalent number of shares that you have sold. For secondary market operations you need to have account with broker who will place your sale/purchase orders on exchange on your behalf.

2. Mutual Funds: Many people find it inconvenient to invest directly in the share market, investment in capital market through mutual fund is one best options for them. Mutual fund investment options are more investor friendly compared to investment in shares. So also one can invest in mutual fund at preferred risk level since mutual offers three basic options for investment such as equity mutual fund, balance/hybrid mutual fund and debt mutual fund. In equity mutual fund more than 90% amount is invested in equity, in balance/hybrid mutual fund investment in equity is in the range of 20 to40% and in debt fund investment in debt is up to 90%. As such those who want to take market risk, they can invest in equity fund, those who want to medium risk they can invest in balance/hybrid mutual fund and those who want to take low risk they can invest in debt fund. Secondly there are different options to invest in mutual fund such as one-time investment, periodical investment of certain fixed amount (monthly, quarterly, half yearly) by way of systematic investment plan (SIP), short term plan (STP), Systematic Withdrawal Plan (SWP). Amongst the equity funds ELSS investment is qualified for deduction in taxable income under section 80C. Investment in Index Fund gives return nearly equal to market return even though it is passive investment. Investment in mutual fund gives you diversification automatically there by reduces the risk to some extent. It is not necessary to have d-mat account for mutual investments, however you opt to investment in d-mat form. Person having no knowledge about equity market can indirectly invest in shares through mutual fund.

Few other options for investment:

1. Public Provident Fund (PPF): This is long-term investment option having minimum period of 15 years and renewable thereafter for 5 hours till you desire. This most safe investment with reasonable return and interest is non-taxable and investment during the financial years qualifies for the deduction under section 80-C. This account can be opened in single name only at all public sector banks, Axis Bank, ICICI Bank, HDFC Bank & IDBI bank and in Post office. Balance outstanding in this account can't be attached by court order or by any judicial order except income tax attachment order. Minimum Rs.500 needs to be deposited in PPF account in a financial year however maximumRs.150000 can be invested in this account and maximum 12 credits are permissible during the financial year. As such this investment is safe and suitable for

tax saving purpose and build corpus for long term goals such as kids education, marriages, retirement corpus. Current interest rate for PPF account is 7.1%pa however the interest on PPF deposits changes upward or downward from time to time.

2. National Savings Certificates: Only to be opened at post office minimum amount to be invested Rs.1000 having no upper limit. Maturity after 5 years and current rate of interest is 6.8% and gets changed from time to time (half yearly) however investor gets the interest as applicable at time of investment till the maturity, which not the for PPF. Investor can take loan against NSC certificates after completing 3 years from the date of investment. Investment in NSC qualifies as investment under section 80-C.

3. National Pension Scheme (NPS): The investment in this account is done from retirement planning point of view. Person between the age 18-65 can open this account with post office, public sector bank, some pvt sector banks, or online account can also be opened. Account to be opened in single name only. Once you open the account it needs to be operative at least till age of 60. On completion of age 60 account holder has 4 options for getting pension. Suitable option for the pension can be selected depending upon the then financial position. Investment in this account qualifies for the deduction under section 80-C and if investor has already completed limit of Rs.1.5 lakh under section 80-C then investment up to Rs.50000 is qualifies for the deduction from taxable income under section 80CC D(1B). Return on this investment is in the range of 9to10%pa. Investor can choose conservative, moderate & aggressive investment option as suitable to the individual. This one of the best options for retirement planning.

4. Senior Citizens' Savings Scheme (SCSS): This investment option is available only for the senior citizen (60+ age) and the account can be opened in single name or joint name only with spouse. Minimum Rs.1000 &Maximum Rs.15 lakh can be invested in this account, however if both joint account holders are 60+ Maximum Rs.30 lakh can be invested in this account either in lumpsum or in parts can be invested. Amount invested during the financial year qualifies for the deduction under section 80-C. Investment period is 5 years and interest applicable at the time of investment remains unchanged till the maturity. Interest changes from time to time and payable quarterly. Current applicable interest rate is 7.6% for risk averse senior citizen this one of the safe investment options that too comparatively higher interest than other schemes.

5. Sukanya Samruddhi Yojana: This scheme is only for the girl child and account can be opened in post office or bank (psu & leading Pvt Sector banks). This account can be opened in the name girl up to the age of 10 only and that too for the first 2 girls. Deposits in an account can be made till completion of 14 years, from the date of opening of the account. The account shall mature on completion of 21 years from the date of opening of the account, provided that where the marriage of the account holder takes place before completion of such period of 21 years, the operation of the account shall not be permitted beyond the date of her marriage. To meet the financial requirements of the account holder for the purpose of higher education and marriage, account holder can avail partial withdrawal facility after attaining 18 years of age. the beneficiary is married before maturity of account, account has to be closed. Currently

7.4% interest is received on this investment, however this interest changes from time to time.

5) Life Insurance Policies, ULIPs & Annuities: This investment option is available with life insurance companies. However, investor should not combine insurance and investment, since return from the traditional insurance policies such as endowment, money back, whole life policies.

While taking investment decision one has to consider income tax, capital gain tax arising out of return by way interest, dividend, & capital appreciation. Interest income arising out of debt is treated as income and taxed according to the applicable tax slab of the individual except interest arising out of investment in PPF and Sukanya Samruddhi Account. Dividend income arising out of investment in shares and mutual fund was tax free till last year, however from current financial year dividend income will be treated as taxable income and will be taxed as per individual's tax slab, this is because in this year's budget dividend distribution tax has been abolished. As regards capital gain the taxation treatment his different for debt mutual fund and equity. In case of debt mutual fund capital gain within 3 years is treated as short capital gain and taxable as per tax slab of the individual and capital gain after 3 years is treated as long term and is taxed at 20% with indexation. Whereas in case of equity investment both shares and equity mutual fund (where % of equity is 51% or more) any capital gain arising within a year is treated as short term capital gain and is taxed at15% and capital gain arising after one year is treated as long term capital gain and such capital gain up to Rs.1 lakh is exempted from the tax and any long term capital gain over and above Rs.1 lakh is taxed at the rate of 10%.

These various investment options are broadly discussed here, however before taking investment decision one should see all the details of the respective option and invest with understanding risk associated with respective option.

PERSONAL FINANCE

CASH FLOW MANAGEMENT AT CAREER CROSSROADS

CMA Soumit Das
Chief Mentor - Financial Goal Achievers
Financial Planning – Risk Management – Wealth Creation Solutions

Life is full of uncertainties and surprise events. This Global Pandemic is one such unpleasant surprise event, which not only affected millions worldwide but also severely damaged economies and businesses across the world, leading to their closure or scaling down and consequent job losses. Nearly 400 million people lost their jobs worldwide, due to the Corona Virus Pandemic. Out of which over 6 million people are in India.

Job loss brings a person's Career to Crossroads. Much of the initial trauma after a job loss is a Victim mind-set, enveloped by Fear and Self-doubt. It's a Change in the Career Path that is inevitable. In order to overcome this Change, one has to be Aware of the Change, Accept the Change and Adopt to the Change. The transition period after a job loss till the person finds another job is very critical. Cash Flow Management becomes extremely important at this Career Crossroads. Availability of free Cash Flows during such challenging times, give the person more Time and Choices before getting the next job. Such free Cash Flows depend on the Assets and Liabilities the person has created while into job and the amount of income generated by those Assets as well as the cost of servicing the Liabilities. At this juncture one should prepare a contingency monthly budget of income and expenses. Efforts should be made to optimize the income from safe investments and reduce the discretionary expenses to generate surplus. While it's difficult to cut down on basic living expenses like House Rent, Utility Bills, Groceries, Educational expenses, Health care expenses, Insurance premiums etc. But one can postpone discretionary expenses like vacations, restaurant bills, luxury goods etc. Provision should be made for Emergency Funds and ensure Continuity of Earnings.

While into job, people enjoy benefits provided by employers that include Group Health Insurance, Group Personal Accident Insurance, Group Term Insurance etc. However, the moment one is out of the job these benefits get withdrawn. But, the related risks for self and family continues. Risk management for contingency planning is very important. In this environment of Fear and Uncertainty triggered by this Global Pandemic, Health and Life are top priorities in peoples mind share. Accordingly, once should immediately buy an adequate Health Insurance Policy for self and family, while serving the notice period. It is suggested to go for a family Floater as it works out to be cheaper than individual health covers for each family member. Be sure of the exclusions and waiting periods in your health plan. It is suggested to get your policy ported to ensure continuity benefits. Check for restoration benefits, no claim bonus and co-pay facility. Check for network hospitals for cashless facility. Ask about the extent to which pre and post hospitalization expenses would be covered. Take your decision accordingly. After Health Insurance one should consider buying a Personal Accident Policy, at least for self. It is a low-cost product with huge benefits. India tops the list of Road Accidents in the world. Outcome of an accident can be No Injury or Injury or Disability or Death. Further Disability can be Permanent Total Disability, Permanent Partial Disability and Temporary Total Disability. Opt for a Personal Accident Policy that covers all the above outcomes and also compensates for the income loss with weekly cash benefit. It is suggested not to opt for Medical Expenses Benefit while buying Personal Accident Policy, as the same is already covered under the Health Insurance. Finally, it's turn for Term Life Insurance Plan. When it comes to Term Cover one should understand the need of Income Protection for Family. The amount of coverage will depend upon one's Annual Living Expenses, capitalized by the prevailing Fixed Deposit rate. It is suggested to go for a basic Term Plan that provides adequate coverage, according to Human Life Value without any riders, as those are already covered under Health Insurance and Personal Accident Insurance. For Term Cover, choose a Life Insurance Company with large number of policy holders, as Insurance is sharing of risks. Check whether the policy holders are protected by adequate Solvency Margin, Reinsurance and reliable Guarantee. Those who have Home Loan, should check whether the Liability Cover includes Job Loss clause apart from Death, so that the same can be invoked for additional relief regarding EMI commitment.

Once the Risk Management is taken care of, one should focus on Asset Allocation to ensure continuity of income, in order to meet monthly expenses as per the contingent plan. One needs to evaluate between incremental returns from various Asset classes, keeping in mind the principle of SLR i.e. Safety of Capital, Liquidity of the Investment and Return on Investment. Continue with your contribution to National Pension Scheme (NPS) and Public Provident Fund (PPF) scheme and keep them active, as you would need the tax-free corpus at the time of Retirement. Contribution to NPS and PPF not only entitles you to income tax benefit under Sec 80C but you also earn a tax-free interest of over 7% per annum on your PPF balance. Do not withdraw your Employer's Provident Fund (EPF) balance, unless you have cash crunch. Besides, you also earn a tax-free interest of 8.5% per annum on your EPF balance. One needs to remain jobless for over 60 days to apply for withdrawal of EPF. The severance pay received from the employer should be invested judiciously. During this period of Contingency every rupee count, so one should carefully consider the risk-reward ratio of each option. Apart for keeping money in Savings Bank Account which yields interest of 2.70% per annum, one may consider keeping expenses of up to 3 months in Liquid Mutual Fund which gives a yield of around 4.60% per annum. Similarly, one can evaluate Fixed Deposit interest rate of 4.90% per annum with Low Duration Mutual Fund which yields a return of over 8% per annum, and invest accordingly. Those with interest in Equity Investment in the present market condition, can choose an Asset Allocator Fund or a Multi Asset Fund that seeks to generate capital appreciation / income primarily from a portfolio of Equity, Debt, and Gold through diversified investment styles. Such Funds help to arrest the downside of the Market. One should choose a Mutual Fund Scheme based on their Investment Objective, Risk Appetite and Investment Horizon. People seeking direct Equity Investment can buy stocks of leading companies in sectors like FMCG, Health Care, Telecom, Paints & Building Components, Private Sector Banks, NBFC, Technology etc which are Consumption driven. Luckily, India's Consumption is largely Domestic in nature. These sectors are expected to drive the Economy on it's way to Recovery. In the present market scenario, one can find quite a few under-valued stocks of leading companies in these sectors. While doing stock selection one should consider Price to Book ratio, as relying on just Price to Earning Ratio may not reflect the true potential of a stock, since the nationwide lock down has dented the earnings of most of the sectors and the leading companies in them. Preference should be given to Debt Free Companies with Free Cash Flows.

Once you have made your Contingent Strategy to Support you Financially with Free Cash Flow, it's time to go full throttle towards Job Hunting. Time is the most crucial element in such Career Crossroads. More time you devote to Job Hunting, more is the probability of landing up with early job offers. Since most of the time in such Career Crossroads gets consumed in up-skilling, resume building, networking and coffee meetings, one may choose to assign this critical job of Cash Flow Management to a Professional Financial Advisor.

Life is full of disappointments, failures and setbacks. None of those things can permanently stop you. You have the power in you to overcome anything that life throws at you. There is nothing as powerful as a made-up mind. Surround yourself with people who remind you that you matter, and support you in the ways that matters most to you. No person, situation, or circumstance can define you who you are. Don't give up, cave in, or stop believing that it's possible. It's not over until you win. Stay Positive. Stay Calm. This too shall Pass. If you find this article informative and useful, please share it with others in your contact sphere, who may get benefited. Meanwhile, Please Take Care of Yourself. Follow the Safety Protocols in the Fight against Corona. Stay Safe.

BANKING, FINANCIAL SERVICES AND INSURANCE COMMITTEE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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CMA Dibbendu Roy
Joint Director
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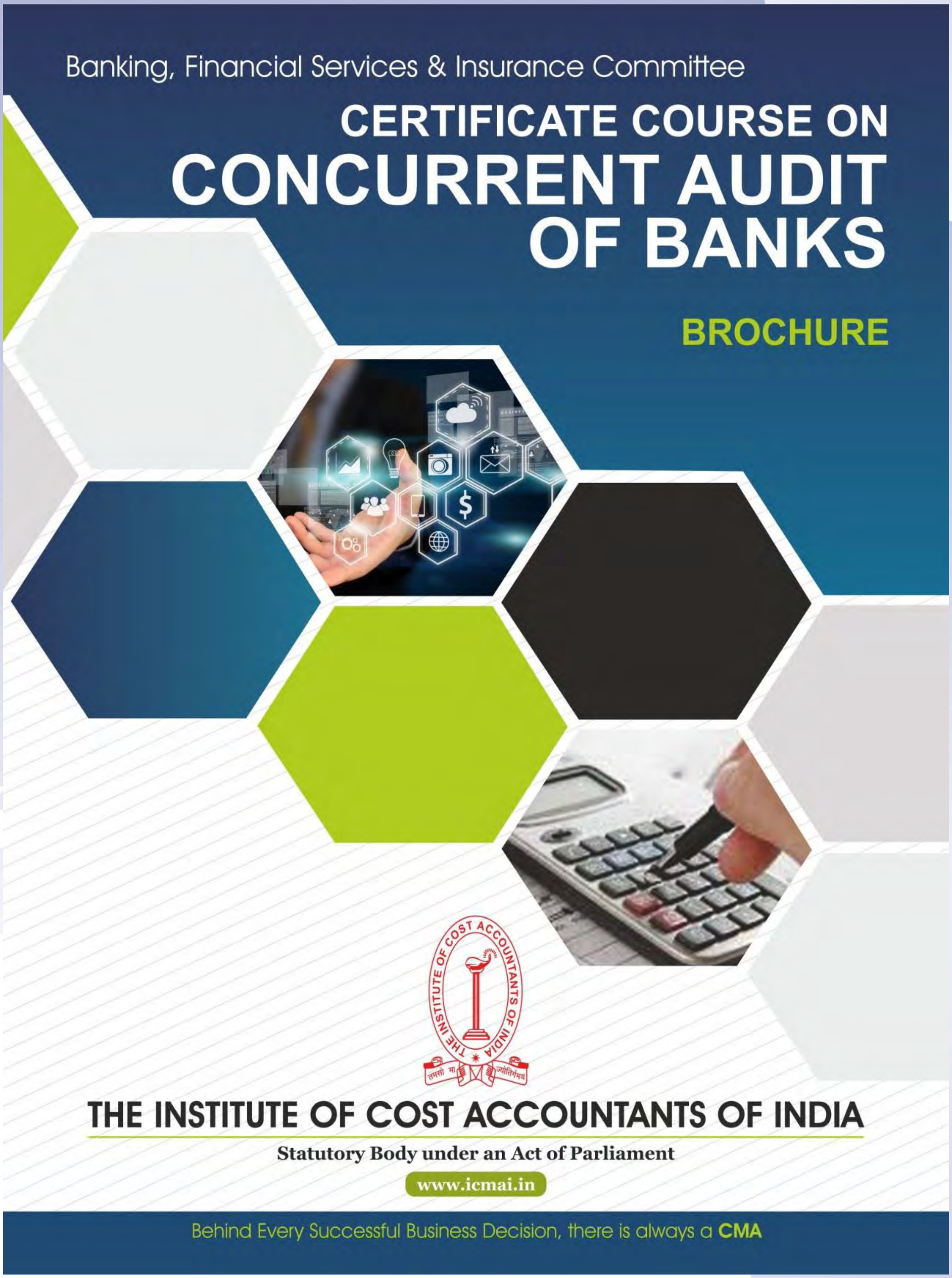
CMA Rajendra Bose
Joint Director and HOD of BFSI Department
9007068555

*Please email to **bfsi@icmai.in** for any queries*

Courses Launched by the BFSI Department

Certificate Course on Concurrent Audit of Banks (Admission for 2nd Batch is going on)



Courses Launched by the BFSI Department

Certificate Course on Concurrent Audit of Banks (Admission for 2nd Batch is going on)

Certificate Course on Concurrent Audit of Banks

About The Institute

The Institute of Cost Accountants of India was first established in **1944** as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy. On **28th May, 1959,** the Institute was established by a special **Act of Parliament,** namely, the **Cost and Works Accountants Act, 1959** as a statutory professional body for the regulation of the profession of Cost and Management accountancy. The Institute is under the administrative control of **Ministry of Corporate Affairs, Government of India.**

The Institute has since been continuously contributing to the growth of the industrial and economic climate of the country. The Institute is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

International Affiliation

The Institute of Cost Accountants of India is Founder member of International Federation of Accountants (IFAC), Confederation of Asian & Pacific Accountants (CAPA) & South Asian Federation of Accountants (SAFA). The Institute, being the only institution from India, is a member of the Accounting Bodies Network (ABN) of The Prince's Accounting for Sustainability (A4S) Project, UK and International Valuation Standards Council (IVSC), UK.

Institute's Strength

The Institute is the 2nd largest Cost & Management Accounting body in the World and the largest in Asia, having a large base of about 85,000 CMAs either in practice or in employment and around 5,00,000 students pursuing the CMA Course.

Institute's Network

Institute's headquarters is situated at Kolkata with another office at New Delhi. The Institute operates through four Regional Councils at Kolkata, Chennai, Delhi and Mumbai as well as through 107 Chapters situated in India, 10 Overseas Centres abroad, 2 Centres of Excellence, 51 CMA Support Centres and 434 Recognized Oral Coaching Centres.

Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

Mission Statement

"The Cost and Management Accountant professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Course Objective

The Banking, Financial Services and Insurance Committee is pleased to offer **Certificate Course** on **"Concurrent Audit of Banks"** to enable participants to understand the intricacies of Concurrent Audit of Banks.

This course aims to impart in-depth knowledge on concurrent audit of banks and to help the participants to acquire with the knowledge/skills to undertake related assignments/Special Audits of the Banks like:

- Forensic Audit (including Forensic Audit of IBC, 2016 Cases).
- Stock and Book Debts Audit of Working Capital Loans/Bills Discount/TReDS.
- Income Leakage Audit.
- FEMA Audit of Category A, B, C Branches.
- KYC/AML Audit.
- Treasury Department Audit.
- Credit Audit of Rs. 5 Crores and above Advances.
- Agencies for Specialized Monitoring of Accounts (Rs. 250 Crs. and above Advance Accounts).
- To issue Compliance Certificate (Rs. 5 Crs. and above Multiple or Consortium Advances).
- Staff Accountability Exercise in respect of Failed/NPA Advances at incipient Stage.
- To supplement the effort of the Banks in carrying out Internal Audit of the Transactions and other Verifications and Compliance with the Systems and Procedures laid down by the Banks and RBI.

Online Admission Link:
https://eicmai.in/advscc/DelegatesApplicationForm.aspx

CEP Hours: 10 hours
for members of The Institute of Cost Accountants of India

Course Eligibility

FCMA/ACMA/those who have qualified Final CMA examination, Bank Officer or Ex-Bank Officer.

Course Duration

a) Classroom Learning of 3 hours per day in the Weekend through online mode
b) 30 Hours on-line Coaching
c) 2 months course
d) Online Examination for 100 marks

Course Fees

Course Fees (including learning kit) of Rs. 5,000/- plus GST of 18 %.

Special Discount for Corporates
For number of employees 5-10, discount is 15%. For number of employees more than 10, discount is 20%

Examination

Rs. 750 plus GST per attempt.

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Courses Launched by the BFSI Department

Certificate Course on Concurrent Audit of Banks (Admission for 2nd Batch is going on)

Certificate Course on Concurrent Audit of Banks

Detailed Course Content

1. Differentiated Banks and Banking Services.
   - 1.1 Scheduled Commercial Banks.
   - 1.2 Regional Rural Banks.
   - 1.3 Small Finance Banks.
   - 1.4 Payment Banks etc.
   - 1.5 Types of Deposits & Advances.
   - 1.6 Miscellaneous Services like Lockers, Safe Deposit Articles, Remittances, Third Party Products, Currency Chest.
   - 1.7 Alternative Delivery Channels ATMs, Internet Banking, Mobile Banking, Business Correspondents etc.
2. Types of Audit in Banks and Importance of Concurrent Audit / Concurrent Audit Procedures / e Concurrent Audit.
   - 2.1 Risk Focus Internal Audit.
   - 2.2 Credit Audit.
   - 2.3 Income Leakage Audit/Revenue Audit.
   - 2.4 Stock & Book Debts Audit.
   - 2.5 Statutory Audit.
   - 2.6 Concurrent Audit.
   - 2.7 FEMA Audit.
   - 2.8 SWIFT Audit.
   - 2.9 e-Concurrent Audit etc.
3. Role and Areas of Concurrent Auditor.
   - 3.1 Verification Transactions of Deposit, Advance Accounts.
   - 3.2 Verification of Services of the Banks like Lockers, Safe Deposit Accounts, Cash Department Procedures, Forex Transactions, Alternative Delivery Channels etc.
   - 3.3 Unit Inspection (Advance A/Cs), End-use of Funds, Verification of pending Fraud cases, Staff Accounts etc.
4. Bank Risk Management – Credit, Market and Operational Risk Areas.
   - 4.1 Credit Risk Areas.
   - 4.2 Market Risk Areas.
   - 4.3 Operational Risk Areas.
   - 4.4 Credit Policy Guidelines and Regulatory Guidelines etc.
5. Legal and Regulatory Frame Work & KYC / AML.
   - 5.1 RBI Act and Banking Regulation Act.
   - 5.2 Different Types of Charges.
   - 5.3 Limitation Act.
   - 5.4 Registration Act.
   - 5.5 Indian Stamp Act.
   - 5.6 Limitation Act.
   - 5.7 SARFEASI Act and CERSAI etc.
   - 5.8 KYC/AML Guidelines of Bank / RBI.
6. IRAC Norms / Provisions and Capital Adequacy Ratio / CRAR / Basel-III / Disclosure Requirements.
   - 6.1 Classification of Advances.
   - 6.2 Provision requirements.
   - 6.3 Capital Adequacy Ratio and its importance.
   - 6.4 Basel-III recommendations.
   - 6.5 Asset Liabilities Management.
7. Loans and Advances.
   - 7.1 Demand Loans.
   - 7.2 Term Loans.
   - 7.3 Overdrafts, Working Capital Loans and Working Capital Term Loans.
   - 7.4 Various Types of Products like Home Loans, Car Loans, Personal Loans, Mortgage Loans, Education Loans etc.
8. Non-fund-based Business
   - 8.1 Types of Bank Guarantees.
   - 8.2 Types of Letters of Credits.
   - 8.3 Margins, Collateral Security, Standard formats of BGs / LCs, Commission on BGs / LCs.
9. Credit Process: Pre-sanction, Sanction & Post-sanction
   - 9.1 KYC, Verification of Application / Project Report, CIBIL, CIC Reports.
   - 9.2 Appraisal, Projections etc.
   - 9.3 Verification of Proposal, Sanction and Submission of Control Forms.
   - 9.4 Documentation, Creation of Charges, Equitable Mortgage, Disbursement, End Use of Funds etc.
10. Common Serious Lapses in Sanction, Follow-up & Documentation
    - 10.1 Non-adherence of Delegation of Powers.
    - 10.2 Short / Excess / Double Finance.
    - 10.3 Take-over Norms.
    - 10.4 Diversion of Funds / End-use of funds.
    - 10.5 Wrong Documentation, Less Stamping on Documentation, Time-barred Documents.
    - 10.6 Units Inspection, Non-obtention of Stock Statements, Coverage of Insurance for both Primary and Collateral Security, Initiation of legal measures for recovery, monitoring of SMA-0 to SMA-2 etc.
11. Forex Transactions – Inward & Outward Remittances
    - 11.1 Opening of NRE / NRO / FCNR / RFC accounts.
    - 11.2 Purchasing of Foreign Currency Cheques / Currency / Export Bills – Forex Rates – Card Vs. Fine Rates.
    - 11.3 Selling of Foreign Currency Drafts / Currency / Import Bills etc.
    - 11.4 Submission of R-Returns to RBI.
    - 11.5 Verification of SWIFT Message Inward / Outward – Bank / RBI Guidelines.
    - 11.6 Nostro, Vostro and Loro Accounts etc.
12. Pre-shipment and Post-shipment Export Finance
    - 12.1 UCPDC Guidelines – FEDAI Guidelines – FEMA Guidelines.
    - 12.2 Pre-shipment packing credit Advance.
    - 12.3 Discounting of Export Bills / Import Bills payment etc.
13. Treasury and Investment Audit Part-I
    - 13.1 Organization Structure of Treasury Department – Front, Mid, Back Office Functions.
    - 13.2 Investment Policy Manual of the Bank
    - 13.3 Integrated Treasury – Money Market, Capital Market, Forex Market Products etc.
    - 13.4 Held-to-Maturity, Available-For-Sale, Held-For-Trading etc.
14. Treasury and Investment Audit Part-II
    - 14.1 FIMMDA Guidelines on Money Market / Dealers.
    - 14.2 RBI Guidelines on Treasury Department.
    - 14.3 Empanelment of SEBI Authorised Dealers for Sale and Purchase of Investments and payment of Commission.
    - 14.4 Non-performing Investment guidelines of RBI.
    - 14.5 Job Rotation of Dealers – Usage of Bloomberg in Treasury etc.
15. Operational Risk Management – ORM-I
    - 15.1 Job Rotation–Staff Attendance-Branch Documents–Security Systems (Fir-Extinguisher, Smoke Detectors, Gun Licences etc.), Currency Chest Fitness Certificate–Disaster Recovery Management–Business Continuity Plan etc.
    - 15.2 Safe Deposit Lockers, Safe Deposit Articles, Deceased Claims Settlement etc.

Behind Every Successful Business Decision, there is always a **CMA** 3

Courses Launched by the BFSI Department

Certificate Course on Concurrent Audit of Banks (Admission for 2nd Batch is going on)

Certificate Course on Concurrent Audit of Banks

Detailed Course Content

16. Operational Risk Management – ORM-II
- 16.1 Complaints–Banking Ombudsman– Customer Forums–Submission of MIS Returns etc.
- 16.2 Deposit of Branch Duplicate Keys–Reconciliation of Office Accounts–System Suspense Accounts–Parking Accounts– Recovery of Service Charges – Income Leakages etc.
- 16.3 Customer Service Meetings–Display of import information notices in Banking Hall–Cheque Truncation System–Complaints and Suggestion Box–Police Beat–ATM Cash Replenishment outsourcing agencies (SLAs)–Branch Outsourcing Staff Monthly Payments, Drop Box etc.

17. Detection, Classification & Reporting of Frauds
- 17.1 Classification of Frauds–Internal & External Frauds.
- 17.2 Provisions / Recovery Efforts of Frauds.
- 17.3 Disciplinary action initiation / Reporting of Frauds to RBI through On-line.
- 17.4 CBI Cases Follow-up etc.

18. Tools for Concurrent Audit of Banks
- 18.1 Bank Systems and Procedures Book-lets.
- 18.2 Standard Operating Procedures of various Products of the Bank.
- 18.3 Current Chest guidelines of the Banks.
- 18.4 Loan Balancing File – CBS.
- 18.5 Delegation of Powers.
- 18.6 Service Charges Book-let etc.

19. Audit in CBS / TMS Environment – Banking / Treasury Software
- 19.1 Core Banking System – Major functionalities.
- 19.2 Various Reports Generated by CBS like Exceptional Reports etc.
- 19.3 Treasury Management Solutions.
- 19.4 TMS-Front, Mid and Back-office Reports etc.

20. Bank Panel Discussion (DGM / GM of Audit Dept.)
- 20.1 Effectiveness of Concurrent Audit.
- 20.2 Compliance of Concurrent Audit remarks by Bank Branches.
- 20.3 Risk Categorisation of Branches Guidelines.
- 20.4 Latest Developments in Concurrent Audit Procedures.

Contact for further queries

CMA Nisha Dewan, Addl. Director at pd.hod@icmai.in
CMA Rajendra Bose, Head, Banking, Financial Services and Insurance Department & Joint Director at bfsi.hod@icmai.in
CMA Dibbendu Roy, Joint Director at bi@icmai.in

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Statutory Body under an Act of Parliament

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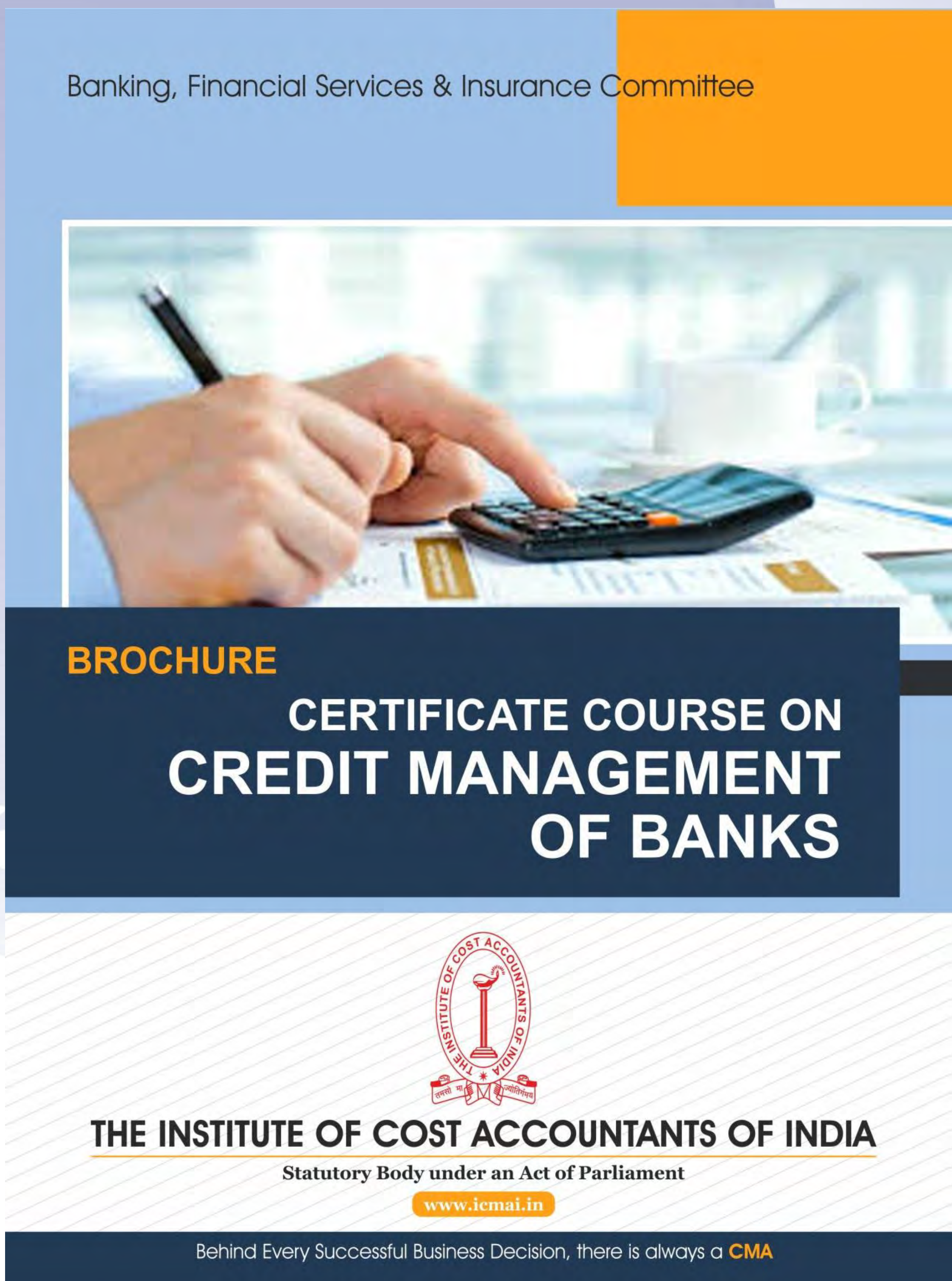
Certificate Course on Credit Management of Banks (Admission for 2nd Batch is going on)



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Certificate Course on Credit Management of Banks

About The Institute

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The Institute has since been continuously contributing to the growth of the industrial and economic climate of the country. The Institute is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

International Affiliation

The Institute of Cost Accountants of India is Founder member of International Federation of Accountants (IFAC), Confederation of Asian & Pacific Accountants (CAPA) & South Asian Federation of Accountants (SAFA). The Institute, being the only institution from India, is a member of the Accounting Bodies Network (ABN) of The Prince's Accounting for Sustainability (A4S) Project, UK and International Valuation Standards Council (IVSC), UK.

Institute's Strength

The Institute is the 2nd largest Cost & Management Accounting body in the World and the largest in Asia, having a large base of about 85,000 CMAs either in practice or in employment and around 5,00,000 students pursuing the CMA Course.

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Course Objective

The world is increasingly getting inter-connected and complex. Bank Credit mechanism has also undergone phenomenal changes in recent years. Few years ago, Credit meant only Cash Credit, Overdraft and Term Loan. Today quasi credit facilities like Letters of Credit, Bank Guarantees, Co-acceptances, Buyer's Credit and Supplier's Credit etc. are gaining predominance. Keeping in view of importance of Credit Management by banks, the Institute of Cost Accountants of India offers the **Certificate Course** on **Credit Management (CCCM).**

Professionals dealing with Finance or Financial Institutions in one way or other need to possess knowledge of 'Credit Management' guidelines of Financial Institutions like Banks, so that they can provide Value Additive Services to their clients like recommending to the banks the business proposals of entrepreneurs, performing preliminary credit appraisal on behalf of the banks and collate additional supporting information required by the banks/credit institutions etc.

In addition to the above, this course is also useful to the professionals who are dealing with:

- ✓ Various assignments like Forensic Audit, Stock and Book Debts Auditor (As recognized by IBA)
- ✓ Issuance of Compliance Certificate for Banks by practicing professionals in areas like Consortium and Multiple Lending by Banks (RBI Guidelines)
- ✓ Acting as Agencies for Specialized Monitoring (As recognized by IBA)
- ✓ Assignments like 'Concurrent Audit' of Banks and 'Credit Audit' of the Banks.

The Course provides a holistic insight into the various dimensions in Bank Credit Management.

Online Admission Link:
https://eicmai.in/advscc/DelegatesApplicationForm.aspx

CEP Hours: 10 hours
for members of The Institute of Cost Accountants of India

Course Eligibility

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Examination

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Certificate Course on Credit Management of Banks (Admission for 2nd Batch is going on)

Detailed Course Content

- **Introduction & Overview of Credit (Module 1)**
  - Principles of Lending: Safety, Liquidity, Profitability, Purpose of Loan, Diversification Risk. Credit
  - Policy: Importance, Contents, Exposure Norms
  - Types of Borrowers: Individuals, Proprietorship Firms, Partnership Firms, Private & Pubic Limited Companies, Limited Liability Partnerships (LLP).
  - Types of Credit Facilities: Various Types of Credit Facilities - Cash Credit, Overdrafts, Demand Loan, Term Loans, Bills Discounting
  - Credit Delivery: Sole Banking Arrangement, Multiple Banking Arrangement, Consortium Lending, Syndication
  - Credit Appraisal: Validation of proposal, Dimensions of Credit Appraisals, Credit Risk, Credit Risk Rating, Credit Worthiness of Borrower, Purpose of Loan, Source of Repayment, Cash Flow, Collaterals
  - Credit Rating: Measurement of Risk, Objective of Rating, Internal & External Rating, Model Credit Rating, Methodology of Rating, Internal & External Comparison, Model Rating Formats. Guidelines on CERSAI registration.
- **Analysis of Financial Statements (Module 2)**
  - Analysis of Financial Statements: Classification of Assets & Liabilities, Current Assets, Fixed Assets, Non-current Assets, Intangible & Fictitious Assets, Liabilities - Current Liabilities, Medium & Term Liabilities, Capital & Reserve, Classification of Current Assets & Current Liabilities, Balance Sheet Analysis
  - Analysis of Profit & Loss Account, Auditor's Note
  - Ratio Analysis - Classification of Ratios, Liquidity Ratios, Leverage Ratios, Activity Ratios, Profitability Ratios, Interpretation of important Financial Ratios, Fund Flow Statements and Cash Flow Statements
  - Project / Term Loan Appraisal: Technical Appraisal, Commercial / Market Appraisal, Managerial Appraisal, Financial Appraisal, Economic Appraisal, Environmental Appraisal, Project Cost & Means of Finance, Cost of Production & Profitability, Sensitivity Analysis, Break-even Analysis, Capital Budgeting - Pay Back Period Method, Time Value Money, Net Present Value, Internal Rate of Return, Life of the Project.
- **Working Capital Management (Module 3)**
  - Working Capital Assessment: Concept of Working Capital, Gross Working Capital, Net Working Capital, Working Capital Gap, Components of Working Capital, Source of Working Capital, Operating / Working Cycle, Various Methods of Assessment of Working Capital, Computation of Working Capital - Turnover Method, MPBF Method, Cash Budget System, Analysis of CMA Data
  - Quasi Credit Facilities: Advantages of Non-Fund Facilities, Various types of NFB Facilities, Various types Letter of Credits, Assessment of LC limits, Bills Purchase / Discounting under LC
  - Various types of Bank Guarantees: Performance Guarantee, Financial Guarantees, Deferred Payment Guarantees, Types of Performance and Financial Guarantees, Assessment of Bank Guarantees Limit, Period of Claim under Guarantee
- **Other Credits (Module 4)**
  - Export Finance: Pre-Shipment Finance-Export Packing Credit in Rupees, Pre-Shipment Credit in Foreign Currency (PCFC), Post Shipment Rupee Export Finance, Purchase / Discount of Export Bills, Negotiation of Export Bills, ECGC Whole Turnover Post-Shipment Guarantee Scheme.
- **Monitoring, Supervision & follow up and Management of Impaired Assets (Module 5)**
  - Documentation: Meaning, Importance, Types of documents, Requisites of documentation, Stamping of different documents, Mode and time of Stamping, Remedy for un-stamped / under-stamped documents, Documents of which registration is compulsory, Time limit of registration, Consequence of non-registration, Execution, Mode of Execution by different executants, Period of Limitation, Law of Limitation to Guarantor, Extension of period of limitation.

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Certificate Course on Credit Management of Banks

Detailed Course Content

- Types of Charges: Purpose, Various types of charges, Types of Security, Mode of charge, Lien, Negative Lien, Set Off, Assignment, Pledge, Right of Banker as a Pledgee, Duties as a Pledgee, Mode of Charges, Hypothecation, Mortgage - different types of mortgages, Difference between Simple and Equitable Mortgage.
- Credit Monitoring, Supervision & Follow Up: Credit Monitoring - Check-list for Monitoring, Monitoring by using various statements, QIS Formats / guidelines, Supervision & Follow Up.
- Management of Impaired Assets : NPA Management Policy, Income Recognition Policy, Assets Classification, Guidelines on Asset Classification, Take out Finance, Provisioning Norms for NPA, Provisioning Coverage Ratio (PCR), Options available to banks in Stressed Assets, Prudential Guidelines on Restructuring, New RBI Framework for Distressed Assets, Wilful Defaulters, Penal Measures, Compromise, Legal Action, Civil litigation, Pre and Post - filing precautions, Type of Decrees, Modes of Execution of Decree, Lok Adalat, Debt Recovery Tribunal, SARFAESI, IBC-2016, Write Off.

Contact for further queries

CMA Nisha Dewan, Addl. Director at pd.hod@icmai.in
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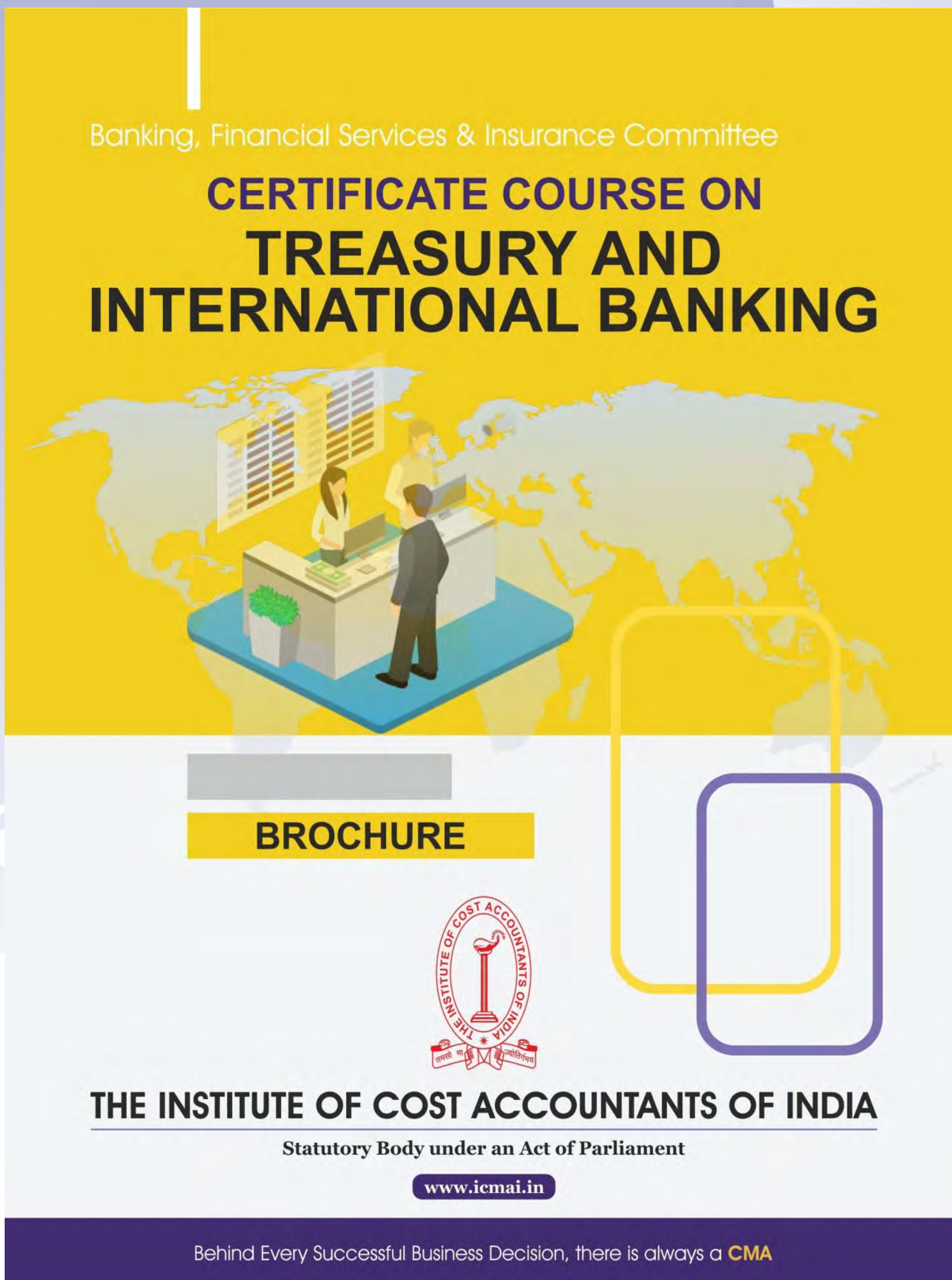
Certificate Course on Treasury and International Banking (Admission for 2nd Batch is going on)



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Course Objectives

Treasury Management is an essential function of a Bank or any Entity dealing with Large volume of funds. With the increased Globalization of Markets, it has become essential to have an in-depth knowledge of the functioning of the Domestic Money and Debt Markets as also the Foreign Exchange Markets for effective management of funds.
On account of several Policy measures undertaken by Reserve Bank of India (RBI) and other Regulatory Authorities, different segment of financial markets (Money, Securities, Foreign Exchange and Derivatives Markets) have witnessed significant growth and development in terms of new financial instruments, number of players, volume of business, etc.
In the light of such developments, treasury functions in Banks, FIs and Corporates have grown manifold and therefore have become challenging to manage. Therefore, it has become indispensable for Banks, Financial Institutions and Corporates to make their newly inducted treasury officers well versed with various segment of the financial market, different products and operations, so that they not only serve their clients better, but also manage the risks inherent in Treasury.
Practicing CMAs who dealing with their Clients are in one way or other linked to Finance and Financial related Issues. Hence, they should possess Good knowledge of 'Treasury Operations', so that they can provide Value Addition Services to their Clients.
Treasury Operations of Banks and Commercial Organizations are more are less with difference of Regulatory Compliance. Even in small business entities, Treasury Operations helps a lot to minimize the Cost of Borrowings and Maximize the Yield on Investments etc.
In addition to the above, this course is also useful to CMAs who are: -

- Empanelled with Banks for Treasury Audit and Forex Audit.
- For Forensic Audit of Treasury Operations / Forex Operations in Banking Industry
- In Credit Audit, if the Bank Sanctions Loans to Clients like Pre-shipment and Post Shipment Packing Credit Advance, this course is also useful.
- And also, useful to take up the Assignments like 'Concurrent Audit in Treasury Department' of Banks, Commercial entities etc.

The Course provides a holistic insight into the various dimensions in Bank Treasury and Forex Operations.

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Syllabus

SECTION - 1

a. Introduction to the Money Market:

- ✓ Economic Function-Definition-Classification of Intermediaries
- ✓ Types of markets-Participants-Nature of Domestic Market
- ✓ Repurchase Agreements
- ✓ Types of Interest Rate Quotations

b. Capital Markets:

- ✓ Economic Function
- ✓ Classification of Instruments-by Issuer and Types
- ✓ Principles of Valuation

c. Foreign Exchange Markets:

- ✓ Introduction-Definitions-Direct and Indirect Quotations: Cross Rates, Factors affecting Exchange Rates
- ✓ Spot Operations
- ✓ Relationship with Market Operations-Financing Spot Operations Interest Arbitrage-Forward-Forward Business
- ✓ Forward Transactions-Factors affecting / influencing forward rates
- ✓ Premiums: Discounts, Forward Cross Rates
- ✓ Swap Transactions
- ✓ Outright Deals

d. External Markets:

- ✓ External Commercial Borrowings
- ✓ GDRs / ADRs

e. Derivatives Markets:

- ✓ Introduction – Definition and Characteristics of FUTURES, SWAPS and OPTIONS
- ✓ Nature of Local Derivatives Market
- ✓ Elementary Hedge Applications

SECTION - 2

a. Scope and Function of Treasury Management:

- ✓ Objectives of Treasury
- ✓ Structure and Organisation
- ✓ Responsibilities of Treasury Manager

b. Domestic Cash Management:

- ✓ Short Term / Medium Term Funding – Meaning and Importance of Cash Management
- ✓ Objectives of Cash Management
- ✓ Cash Flow Budgeting and Forecasting
- ✓ Electronic Cash Management

c. Cost Centre / Profit Centre:

- ✓ Financial Planning and Control
- ✓ Capital Budgeting
- ✓ Risk Analysis

d. Liquidity Management:

- ✓ Objectives
- ✓ Sources of Liquidity
- ✓ Maturity Concerns: Projected Cash Flow and Core Sources Contingency Plans
- ✓ Short term and Long-term Liquidity
- ✓ Maturity Ladder Limits
- ✓ Internal Control – The Need and Importance – Financial and Operational risks – Internal vs External Control Segregation of Duties among Front and Back Offices – Management Information – Netting

e. Treasury's Role in International Banking:

- ✓ Changing Global Scenario and Treasury Functions
- ✓ Treasury Structure- Front and Back Office
- ✓ Control of Dealing Operations – Trading Limits – Trading and Operational Policy – Moral and Ethical aspects
- ✓ Confirmations

f. Revaluation Mark to Market and Profit Calculations:

- ✓ Supervision and Exchange Control Departments
- ✓ RBI requirements
- ✓ Recent Developments in the Central Bank's Policy Framework

SECTION - 3

a. Introduction:

- ✓ Meaning of Risk in Banking Operations-Financial and Non-Financial Risks
- ✓ Risk Process
- ✓ Key Risks in Relation to Treasury Management – Interest Rate Risk, Currency Risk, Liquidity Risk, Credit Risk and Operational Risk

Behind Every Successful Business Decision, there is always a CMA 3

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Syllabus

b. Measurement and Control of Risk:

- ✓ Identifying Measures and Controlling Risk – Statistical Methods
- ✓ Risk Exposure Analysis
- ✓ Risk Management Policies
- ✓ Fixation and Delegation of Limits
- ✓ Different Limits- Open Position / Asset Position Limits/ Deal Size/Individual Dealers/Stop Loss Limits

c. Assets Liability Management:

- ✓ Components of Assets and Liabilities – History of AL Management
- ✓ Organisational and Functions of ALCO
- ✓ Management and Interest rate Exposure / Liquidity
- ✓ Risk Adjusted Return on Capital
- ✓ Capital Adequacy Concerns

d. Hedging the Risk:

- ✓ Forward, Futures and Options Market
- ✓ Mechanics of Futures
- ✓ Foreign Currency Futures Market
- ✓ Options Market- Options Strategies
- ✓ Hedging Strategies and Arbitrage
- ✓ Call Options and Put Options

Contact for further queries

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

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Behind Every Successful Business Decision, there is always a CMA

Courses Launched by the BFSI Department

Certificate Course in Investment Management (Admission for 3rd Batch is going on)

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Certificate Course in Investment Management (Admission for 3rd Batch is going on)

Certificate Course in Investment Management

NISM NATIONAL INSTITUTE OF SECURITIES MARKETS An Educational Initiative of SEBI

About ICAI

The Institute of Cost Accountants of India was first established in 1944 as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy. On 28th May, 1959, the Institute was established by a special Act of Parliament, namely, the Cost and Works Accountants Act, 1959 as a statutory professional body for the regulation of the profession of Cost and Management accountancy. The Institute is under the administrative control of Ministry of Corporate Affairs, Government of India.

The Institute has since been continuously contributing to the growth of the industrial and economic climate of the country. The Institute is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

International Affiliation

The Institute of Cost Accountants of India is Founder member of International Federation of Accountants (IFAC), Confederation of Asian & Pacific Accountants (CAPA) & South Asian Federation of Accountants (SAFA). The Institute, being the only institution from India, is a member of the Accounting Bodies Network (ABN) of The Prince's Accounting for Sustainability (A4S) Project, UK and International Valuation Standards Council (IVSC), UK.

Institute's Strength

The Institute is the 2nd largest Cost & Management Accounting body in the World and the largest in Asia, having a large base of about 85,000 CMAs either in practice or in employment and around 5,00,000 students pursuing the CMA Course.

Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

Mission Statement

"The Cost and Management Accountant professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Institute's Network

Institute's headquarters is situated at Kolkata with another office at New Delhi. The Institute operates through four Regional Councils at Kolkata, Chennai, Delhi and Mumbai as well as through 108 Chapters situated in India, 10 Overseas Centres abroad, 2 Centres of Excellence, 51 CMA Support Centres and 434 Recognized Oral Coaching Centres.

About NISM

The National Institute of Securities Markets (NISM) is a public trust established in 2006 by the Securities and Exchange Board of India (SEBI), the regulator of the securities markets in India. The institute carries out a wide range of capacity building activities at various levels aimed at enhancing the quality standards in securities markets. The institute's six schools of excellence work in synergy towards professionalized securities markets.

Vision

To lead, catalyze and deliver educational initiatives to enhance the quality of securities markets.

Mission

To engage in capacity building among the stakeholders in the securities markets through financial literacy, professional education, enhancing governance standards and fostering policy research.

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ONLINE CERTIFICATE COURSE IN INVESTMENT MANAGEMENT

(With Exclusive Hands on Trading in Algo and Trading Analytics Lab)

Course Objective

The course aims at providing a better understanding of the Investment decision making process and strategies for investment, with emphasis on equities, equity derivatives and mutual fund investments. The course helps to develop fundamental skills for successful investment by providing insights into how the models can be applied in the real world dynamic environment with the objective of maximising returns and minimising risk. Provides an exposure to trading simulations through the NISM Algo and Trading Analytics lab.

Course Content

The course is divided into **3 levels.** Each level can be taken separately and completed based on the needs and priorities of the participants. The contact classes and hands on practice time for **each level** will be **30 hours.** All three levels put together aim at providing a holistic view of investment management and help in preparing for different roles offered by capital market intermediaries.

The Bridge course is meant to introduce the securities markets basics to participants who are not conversant with the same. The bridge course will provide an overview of Financial markets, investible assets, the concept of risk and return and financial ratios for investment evaluation. The duration of the **bridge course** will be for about **6 hours.**

Stock Selection and Trading in Equity – Level I

- Stock picking and investing styles
- Equity Market operations and concepts
- Lab based sessions on order execution, order and trade management and queries.
- Risk management framework and client level investment risk management

Technical Analysis and Mutual Fund – Level II

- Chart types and Chart construction
- Patterns and indicators-trend, momentum, volatility, oscillators.
- Strategy building and backtesting - reading reports.
- Hands on session covering above concepts
- Mutual funds - introduction, products, investment goals - how to pick mutual funds for investment needs using case studies

Basic Derivatives and Derivatives Trading Strategies – Level III

- Introduction, derivative products - futures and options.
- Equity futures - pricing, trading strategies, hedging using futures
- Equity options - Strategies for option buyers and use of option greeks
- Strategies for option writer and use of option greeks
- Hands on session - building derivative strategies for bull, bear and consolidating market phases and execution

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Courses Launched by the BFSI Department

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Course Takeaways

- At the end of Level I the participant will be able to pick stocks for investment and also execute those decisions efficiently through online trading terminals. The participant will also understand risk and capital required for trading in equity cash markets.
- Level II will help in timing the execution of investment decisions using technical tools. Understand major patterns and indicators and predict trends. Overview of Mutual Fund schemes and how to select Mutual Fund schemes for investment.
- Level III will build basic understanding of derivatives and also help in understanding and applying strategies for different market regimes like bull markets, bear markets and markets in consolidation mode.

For YOU

- Understand online trading operations and how markets work
- Using technical indicators to predict market trends
- Formulate investment strategies (equity and equity derivatives), apply and maximise profits with reduced risk
- Explore new strategies and apply in the real world simulation environment
- Understand the impact of events and news on markets
- Minimise the impact of volatility and manage risk

For Your COMPANY

- Prepare for roles like "dealer desk" and client management in broking firms
- Proficiency in dealing with both equity and equity derivatives
- Improve the potential to execute and manage trades and positions across both equity and equity derivatives more effectively
- Understand the risk management framework

Eligibility

- Students pursuing CMA Course (Foundation/ Intermediate/Final)
- Qualified CMAs and members of the Institute of Cost Accountants
- Student with non-commerce or non-accounting bachelor's degree will have to enrol for bridge Course

Course Fees

Course Fee for each level - **Rs. 3, 600/- + GST @18%**

Details of Payment is stated in BFSI Portal of the Institute's website.

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Courses Launched by the BFSI Department

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Key Features

- Delivered online through WebEx platform by experienced faculty from NISM
- Webex platform Offers opportunity for participant interaction and Q&A through chat box, questions etc
- Exposes the participants to the dynamic trading environment through lab based sessions
- Brings real world experiential learning to the classroom
- Course offers unique hands on trading and investment experience through the Algo and Trading Analytics lab
- Access to the Algo and Trading Analytics Lab for a period of 4 weeks for self-study, assignment and hands on practice sessions as per market working hours on working days and Saturdays.
- Rigour maintained through periodic assessment – online quiz and lab based assignments

Assessment for Each Level

- Quiz – online quiz with weightage of 60%
- Assignment – With weightage of 40%

Certificate of Completion – Will be issued to those participants who complete the assessment with minimum of 50% marks in aggregate.

Detailed Course Outline for Each Level (Level I/II/III)

Stock Selection and Trading in Equity - Level I

The Level I is a foundation level program for Investment management professionals. It blends the methods of valuation of equity and identifying stocks for investment with the process of execution of the investment idea through trading terminals. The course combines investment decision making with trading operations covering both the idea and the execution aspects of investment.

Objectives

- Understand the methods for valuation for equity and investment decision making styles – value and growth investing.
- Understand the nuances of operations in equity cash markets – trading, order matching,
- Session in a market and global market structure.
- To provide an overview of trading operations and market operations, across Equity cash segments
- From a dealer role perspective enable the participants with hands on sessions on trading in equity cash markets with emphasis on order punching, trade and position Management and understanding of trading strategies.
- Understand Risk management at client level and exchange level.

Content

The program is designed as an intensive practical program spread across 30 hours of online sessions, hands on sessions in lab and self paced explore the lab sessions. The following topics will be covered:

- Overview of Financial Markets – Institutions and instruments
- Investment in Equity – Valuation methods, models and investment styles
- Trading basics Equity Cash Markets – Products, Concept, trading clearing and settlement process, order matching Rules and trading operations with emphasis on order and trade management.

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Certificate Course in Investment Management

- Lab based session – Getting started, Order and trade management, position management
- and queries and trading strategies
- Extensive hands on sessions on understanding client level risk, news based trading sessions and case studies using live and recorded data.
- Risk Management at client and exchange level – Margins, circuit breakers, price limits, minimum capital etc.
- Global Market micro structure - overview

Assessment

Quiz – online quiz with weightage of 60%
Assignment – With weightage of 40%

Certificate of completion – Will be issued to those participants who complete the assessment with minimum of 50% marks in aggregate.

Technical Analysis & Mutual Fund - Level II

Level II is structured to provide insights into technical analysis as a tool to time the execution of equity investment decisions so as to buy low and sell high. The course blends the understanding of different indicators like trend, volatility, Momentum and combinations of the above indicators, back test the same on historical data, improve the strategy and create profitable strategies that are ready to implement in the markets.

Pre-requisite

Good understanding of the trading process, trading operations, margining system, cash market products and fundamental valuation methods is required. – Level I on equity valuation and trading in equity is a desirable pre-requisite for this program.

Objectives

To understand the importance of technical analysis, different indicators and patterns. To prepare the trading strategy and the set up for intra day trading or short term trading. To apply the strategies developed in real markets and understand the effectiveness of the strategies developed.

Content

The program is designed as an intensive practical program spread across 20 hours of online sessions, hands on sessions in lab and self paced explore the lab sessions. The following topics will be covered:

- Overview of Financial Markets – trading operations, Introduction to Technical Analysis
- Chart types and chart construction
- Support, Resistance, Patterns
- Trend indicators, Momentum indicators, Oscillators and Volatility Indicators. Using combination of indicators for strategy.
- Dow and Elliot wave theory
- Hands on session on building and application of different indicators, forming strategies and backtesting strategies
- Hands on sessions on reading backtesting reports and arriving at profit maximisation trading strategies
- Risk management – Stop loss, trailing stop loss, Risk reward ratio
- To choose Mutual Fund schemes for investment

Assessment

- Quiz – online quiz with weightage of 60%
- Assignment – With weightage of 40%

Certificate of completion – Will be issued to those participants who complete the assessment with minimum of 50% marks in aggregate.

6 Behind Every Successful Business Decision, there is always a **CMA**

Courses Launched by the BFSI Department

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Certificate Course in Investment Management

Basic Derivatives and Derivatives Trading Strategies - Level III

This level covers basics of equity derivatives and also provides an understanding of derivative trading strategies. It blends strategies that combine cash market with futures and options to create winning trades across bullish, bearish and consolidation phases of the market. This level provides unique and practical understanding of options, option greeks. Using options for trading and hedging. Provides an understanding of how to trade volatility and use time decay for trading profitably. Live hands on session in the lab supported by price calculators – that incorporate volatility and time factors is included in the study.

Pre-requisite

An understanding of trading, trading operations related to cash markets and technical analysis will be very useful to learn, position and manage derivative trading strategies.

Level I on equity trading is an essential prerequisite for this level. Level II on technical analysis will help the participants to make superior decisions.

Objectives

Understand the equity derivatives basics and advanced concepts. Valuation of derivatives futures and options. Option writing – Option greeks: role in trading and trading strategies. Derivative trading strategies for bullish, bearish markets and markets in consolidation phase. Application of the strategies in live market environment and understand the implications.

Content

The program is designed as an intensive practical program spread across 30 hours of online sessions, hands on sessions in lab and self-paced explore the lab sessions. The following topics will be covered:

- Introduction to Derivatives – derivative products: Index and stock, futures, forwards, options – types, need for derivatives. Terminology.
- Derivative market operations: Trading, clearing and settlement- Mark to Market and expiry pay off. Regulatory framework – Eligibility, Market wide position limits, Roll over, open interest, impact cost.
- Futures – pricing of future contracts, Pay off diagrams, trading and hedging using futures.
- Options – types, terminology, simple trading and hedging strategies using options. Valuation or pricing of options. Pay off diagrams, put call parity, Option analytics; volatility trading and time decay.
- Hands on session in lab on trading using combination of equity cash, futures and options based strategies. Bullish and bearish market strategies. Application of volatility trading and time decay.

Assessment

- Quiz – online quiz with weightage of 60%
- Assignment – With weightage of 40%

Certificate of completion – Will be issued to those participants who complete the assessment with minimum of 50% marks in aggregate

Courses Launched by the BFSI Department

Certificate Course in Investment Management (Admission for 3rd Batch is going on)

Activities of the BFSI Department

One of the objectives of the BFSI Committee was to propagate and disseminate the latest developments and issues of contemporary interest amongst the members and students of the Institute among others. The BFSI Department was tuned with such objectives of the Committee and made all efforts to ensure that the latest developments in the fields of Banking, Financial Services and Insurance are brought to the knowledge of all stakeholders. This saw a spate of WEBINTS wherein the top management from the Banking and Insurance sector were invited for the WEBINTS who not only deliberated and discussed among the panel the current issues but also addressed several thought provoking questions that came from the participants which added significant value towards enhancement of knowledge of all the participants. Webinars were also held at regular intervals by experts who have made a name for themselves in their own fields and these went a long way in capacity building and skill enhancement of the participants.

1. Conduct of Webinars:

The Committee conducted 1 more webinar since it was last reported in the BFSI Chronicle published in September 2020 on various topics in the fields of Banking, Financial Services, Insurance and others.

Sl. No.	Date and Time	Topic	Speaker
1.	29/10/2020 4:00 PM - 6:00 PM	Get Ready for LIBOR Phase Out 2021	CMA Dr. P Siva Rama Prasad, Former AGM of SBI

2. Conduct of WEBINTs:

The Committee as on date conducted 2 more WEBINTs since it was last reported in the BFSI Chronicle published in September 2020 and brought in luminaries of Banking, Insurance, Financial Services and from Economics fields.

Sl. No.	Date and Time	Topic	Speakers
1.	12/10/2020 4 PM - 6 PM	WEBINT: Onshore and Offshore of Indian Rupee	CMA Dr. P. Siva Rama Prasad, Former AGM of SBI
2.	08/11/2020 09:30 AM - 11:30 AM	WEBINT: How to Prepare for IBBI Limited Insolvency Examination? (Old Syllabus upto 31.12.2020 only)"	CMA Dr. P. Siva Rama Prasad, Former AGM of SBI

3. Launch of the 2nd Batch of Certificate Courses of BFSI Department

The department has also started admission for the three Certificate Courses namely Certificate Course on Concurrent Audit of Banks, Certificate Course on Credit Management of Banks and Certificate Course on Treasury and International Banking. The members are requested to enroll at the earliest as the courses are conducted for Capacity Building and Skill Development.

4. Conduct of Examination of BFSI Courses

The BFSI candidates for the 1st batch for the courses has been notified and the participants can appear for the examination through Test From Home (TFH) format in the Post COVID-19 environment. The Department has concluded the mock test scheduled for the Certificate Course on Concurrent Audit of Banks, Certificate Course on Credit Management of Banks and Certificate Course on Treasury and International Banking.

5. Certificate Course on Investment Management in association with NISM

The Department has started the 1st batch of the certificate course on Investment Management in association with NISM from 18th October,2020 and a batch of 50 participants are there in the 1st batch. The 2nd batch admissions have also started and it is tentatively scheduled to start from 2nd week of December,2020. We hope the members and the students would take the opportunity in taking registration in the course of capital markets.

6. Publication of the Guidance Note on "Aide Memoire" on Lending to Micro, Small and Medium Enterprises Sector

The Department is finalizing the Guidance Note on "Aide Memoire" on Lending to Micro, Small and Medium Enterprises Sector and it would be released very soon for the benefit of members and public at large.

BFSI Updates

1. RTGS to become 24x7 from December

RBI has decided to make available the RTGS (Real-time Settlement System)-online fund transfer above Rs.2 lakh-round the clock on all days from December,2020. With this, India will be among the few countries globally with a large value payment ecosystem.

"In order to facilitate swift and seamless payments in real time for domestic businesses and institutions, it has been decided to make available the RTGS system round the clock on all days from December, 2020" the RBI said.

"This will facilitate innovations in the large value payments ecosystem and promote ease of doing business," the RBI said.

In December 2019, the RBI made available the National Electronic Funds Transfer (NEFT) system round the clock on all days and the system has been operating smoothly since then, it said.

The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is Rs. 2 lakh and there is no maximum ceiling. Currently, RTGS service window for customer transactions is available to banks from 7 am to 6 pm on a working day, for settlement at the RBI end. However, the timings that the banks follow may vary from bank to bank, RBI said.

2. Banks credit up 5 % m deposits clock 12 % growth

Bank credit grew 5.26 percent to Rs.102.24 trillion while deposits rose 11.98 percent to Rs.142.48 trillion in the fortnight ended September 11, according to the RBI data.

In the fortnight ended September 13, 2019, bank credit was at Rs.97.13 trillion and deposits at Rs.127.22 trillion.

In the previous fortnight ended August 28, 2020, bank credit had grown by 5.49 percent to Rs.102.11 trillion while deposits were up 10.92 percent to Rs.141.76 trillion.

On a year-on-year basis, non-food credit grew at 6.7 percent in July as against a growth of 11.4 percent in the same month of the last year, according to the data on sectoral development of bank credit for July 2020, released recently by the RBI.

Growth in loans to industry slowed to 0.8 percent in July as compared with 6.1 percent growth in July, 2019, the data showed.

Advances to agriculture and allied activities registered a growth of 5.4 percent in the reporting month as compared with a growth of 6.8 percent last year in the same period.

Credit to the services sector continued to grow at a robust, albeit decelerated, rate of 10.1 percent in July 2020 as against 15.2 percent growth.

Personal loans continued to perform well registering a growth of 11.2 percent as compared with 17 percent growth in July 2019. Within this sector, vehicle loans, registered accelerated growth of 8.1 percent in July, 2020 as compared with the growth of 4.9 percent in the corresponding month of the previous year, according to the data.

3. RBI infuses Rs.20,000 crore into Banking System via OMO

RBI infuses Rs. 20,000 crore into the banking system through an open market operation (OMO) purchase of government securities (G-Secs) worth an equal amount, the first under the enhanced limit announced recently.

The liquidity infusion measure will mainly help in checking the current trend of rising yields, market players said.

Data from the central bank showed that it has bought G-Secs of six-year tenure worth Rs. 6,600 crore, of eight year tenure worth Rs. 5,177 crore of 10 year tenure (the old benchmark) worth Rs.3,475 crore and of 13 –year tenure worth Rs. 4,748 crore.

The RBI bought the 10-year papers at a yield of 5.86 %. After the OMO, the benchmark yield closed at 5.9 %, not far from its previous close.

4. Extension of moratorium period may affect credit discipline

RBI has told the Supreme Court that continuation of the loan moratorium period beyond the six months already granted may affect overall credit discipline, and small borrowers will eventually feel the pinch.

The central bank has also urged the apex court to lift its interim order staying declaration of accounts as non-performing assets (NPAs), saying this will have "huge implications for the banking sytems, aprt from undermining its "regulatory mandate".

In a fresh affidavit filed in the Supreme Court, which is hearing a plea on the question of charging interest on interest on loan repayments during the moratorium period, the RBI said "a long moratorium exceeding six months can also impact credit behavior of borrowers and increase the risks of delinquencies post resumption of scheduled payments, it may result in vitiating the overall credit discipline which will have a debilitating impact on the process of credit creation in the economy. It will be the small borrowers which may end up bearing the brunt of the impact as their access to formal lending channels is critically dependent on the credit culture".

5. Colour Codes for health insurance plans

IRDAI is going to introduce colour codes for all individual health products that will enable the customers to understand the complexity of plants. According to an exposure draft released by IRDAI every health insurance product offered by general and health insurance companies will disclose on their websites colour codes. The firms will use green, orange and red to depict the complexity of the products on offer.

While green will signify that the product on offer is simple to understand, orange will mean it is moderately complex. Red will give out the impression that the product offered is complex. The regulator has sought comments by October, 15. Every insurance advertisement shall also mention the colour code, said IRDAI.

These guidelines are only applicable to individual health products, as the regulator is of the opinion that the group health insurance products are chose by Institutions considered as better informed entities.

The IRDAI has set a number of parameters, based on which the products on offer will be given a score between 0 and 6. A product will be assigned "green" if it attains a score of 2 or less. Similarly, a product with an orange code means it has a score more than 2 but less than or equal to 4, while a product with a score greater than 4 and less than or equal to 6 will be assigned red.

6. Health Insurance may witness premiums jump upto 70 %

The premium on health insurance policies have risen by 40-70 % for policy holders after insurers hiked rates following a regulatory note to widen coverage and standardize conditions with regard to exclusions. Insurance Companies say the hikes are necessary as the IRDAI has asked them to cover a range of conditions excluded earlier. From pandemics like COVID-19 to age related ailments such as cataract surgery, knee-cap replacements, Alzheimer's and Parkinson's insurers could earlier exclude them. With regulatory changes in the last one year making it mandatory for them to cover COVID-19, HIV/AIDS, artificial life maintenance, treatment of mental illness, mental disorders, age-related degeneration, internal congenital diseases, insurers say price rise in inevitable.

COVID coverage, insurers say is the heaviest burden in recent weeks. Last month, the General Insurance Council appealed to the Supreme Court along with policyholders over exorbitant rates charged by private hospitals for COVID treatment. While most health insurance policies had got IRDAI approval before the pandemic, brokers say that insurers are raising rates by pricing policies at the highest end of the rate band approved by the regulator, instead of pricing it mid-range. Insurers say that standardization of the cooling period for exclusions is pushing up costs.

IRDAI had ruled that every health insurance product should cover all pre-existing diseases disclosed after the expiry of 48 months or lower time period. Another industry-wise trend that industry observers are seeing-is the change in slab based pricing "So earlier, insurers used to have larger agewise bands of 25-35,35-45,45-55. As policyholders crossed these age-bands there would be a price increase. But increasingly, the market has been flooded with new products, which have a shorter age-band of 5-years. So that means every 5 years, prices change for customers. There are even products, where every year, the insurer can change the price.

7. Circular on guidelines of Inter-Scheme Transfer of Securities issued by SEBI

The SEBI issued a circular pertaining to the guidelines on Inter-Scheme Transfers (ISTs) of securities within the same mutual fund. The circular will be applicable with effect from January 1, 2021.

8. SEBI has revamped of products with very high risk category

The Market Regulator, SEBI revamped the product labelling on mutual fund schemes under risk-o-meter by introducing "very high risk n" category to warn investors. The existing five categories to measure risks are –low, low to moderate, moderate, moderately high and high.
Based on the scheme characteristics, mutual funds will assign a risk level for schemes at the time of launch of scheme/new fund offer, SEBI said in a circular. It has further said any change in risk-o-meter will be communicated by way of notice cum addendum and by way of an email or SMS to unit holders of that particular scheme.

Risk-o-meter will be evaluated on a monthly basis and mutual fund houses will have to disclose the risk-o-meter along with portfolio disclosures, for all their schemes on their respective website and on the industry body AMFI website within 10 days from the close of each month.

SEBI said mutual funds will have to disclose the risk level of schemes as on March 31 of every year, along with the number of times the risk level has changed over the year, on the website and AMFI website.

The risk in equity funds will be judged on the basis of three parameters-market capitalization, volatility and impact costs.

With regard to debt securities SEBI said it will be assessed on the basis of credit risk, interest rate, liquidity, among others. For investments by mutual funds in instruments having short term ratings, SEBI said, the liquidity, risk value and the credit risk value shall be based on the lowest long term rating of the instrument of the same issuer in order to follow conservative approach across credit rating agencies.

However, if there is no long term rating of the same issuer, than based on credit rating mapping, the most conservative long term rating will be taken for a given short term rating. SEBI said mutual funds need to publish scheme in a tabular form scheme wise changes in risk-o-meter in the annual reports and abridged summary.

Notes

Notes

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