BANKING FINANCIAL SERVICES AND INSURANCE (BFSI)

CHRONICLE

5th VOLUME - MARCH 2021

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 110 Chapters situated at important cities in the country as well as 11 Overseas Centres. It is under the administrative control of Ministry of Corporate Affairs, Government of India.

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Optimism is the faith that leads to achievement. Nothing can be done without hope and confidence

- Helen Keller

This being the first issue of this New Year 2021, let me start with prayers and greetings. I wish all of you a very healthy, happy, prosperous and peaceful 2021 with a very positive note. India stands tall as pharmacy of the world after supporting 70 countries in the world with vaccine and also effectively controlling the pandemic. The vaccine drive against COVID-19 started on January 16 and more than three crore people are vaccinated. This is one of the fastest vaccination drives in the world. Indian business has reached almost pre Covid levels and the economy is looking forward for further growth. OECD joins IMF and Economic Survey in predicting India's return to be being the fastest growing economy in the world this year. The Economic Survey sees a robust growth of 11% for the fiscal year beginning on April,1 on the back of nationwide vaccination and a rebound in consumer demand. India surpasses China as an Asia's biggest destination for investment in fin-tech in the Q2 ended June 2020 as per a report released by RBSA Advisors. The FDI during April-December 2020 was the highest at $ 67.54 Billion. 22 % higher, year on year.

Credit demand to pick up as per RBI. A study by RBI published in its latest monthly bulletin stated that credit offtake is expected to pick up as the economy is poised to stage a smart comeback in 2021-22 on the back of decline in Covid 19 infections and swift rollout of vaccination program in addition to number of measures taken by the government. As per Morgan Stanley, public sector banks would see moderate bad loan additions. Also, Crisil report says that credit demand may be to the tune of 9 to 10% in FY 22. The government is likely to bring a prepackaged insolvency resolution process across board in light of anticipated rise in bankruptcy due to pandemic. According to reports, government is likely to start with MSMEs.

Every central bank is on the same page in terms of commitment to support the process of economic revival and avoid premature tightening of monetary policy said RBI Governor Shri Shaktikanta Das. He was responding to query on whether higher commodity prices and hardening rates limit RBIs ability to cut rates.

India overtakes Russia in forex reserves. And at US $ 58 .3 billion, India has the fourth largest foreign exchange reserves in the world after China, Japan and Switzerland on 14th March. India’s reserves are sufficient to cover 18 months of imports.

I feel privileged to share that we have entered into Memorandum of Understandings with 2 premiere institutions, namely – National Institute of Securities Markets (NISM) and National Insurance Academy and will continue to have more MOUs with premier institutions in the BFSI sector to give our members an edge in their skill set and knowledge base.

The Department is planning to organize the month of April as MSME month and we have eminent speakers, professionals and regulators who will deliberate in four webinars scheduled in the month of April, 2021. We are going strong on the online courses of BFSI and intend to have a course on Insurance with National Insurance Academy in the coming days. The Department is sending representation to BFSI sector for inclusion of CMAs in areas where they have been neglected. The publication of the MSME sector ‘Aide Memoire on Lending to MSME Sector (Including Restructuring of MSME Credit)’ is now available online for purchase. We request all members and students to purchase the unique publication before stocks last. The Department has conducted 47 Webinars and 12 Webints. We would be having the 1st physical event on 24th March, 2021 at Kolkata and hope members and students would participate in large numbers.

I have met many distinguished personalities on behalf of the committee the details of which are regularly published in the Management Accountant and shall continue our endeavors to keep up the momentum in our activities covering the BFSI spectrum.

Let me conclude, with the lessons we learnt from 2020. It is Be PAUSITIVE, means Take a **PAUSE**, but Be **POSITIVE**. **“This too will pass** “is the mantra. Let’s move on Let’s Stay Safe Let’s HOPE….**H**old **O**n **P**ain **E**nds…..

With Warm Regards

CMA Chittaranjan Chattopadhyay

March 24th, 2021

From the Desk of the Department

Greetings from team BFSI!

It's time for the curtains to come down for the financial year 2020-21, a year which will go down in the history of humanity and remain as unprecedented in more ways than one. While the pandemic outraged the globe with the ferocity of an unseen microscopic enemy, the human race changed gears to deal with the impact.

The pandemic touched all sectors and humanity at large, BFSI being no exception. However, this sector led the recovery process from the forefront as arguably it may be the only sector that cuts across all strata of society and enterprise. While the BFSI sector was reasonably digitized, the lockdown ensured overall digitization as the key pillar for growth and sustainability as no economy could survive BFSI sector entering a lockdown phase. Baring the health sector, BFSI sector was perhaps one among the very few in the club of 24x7 at your service sector!

We look forward optimistically for the future. India Ratings and Research has already (up) graded the Indian banking sector to "stable". There has been a reduction in the Covid-19 linked stress to below the expected levels of liquidity support and credit support, more so in the micro, small and medium sector (MSME). The banks may emerge stronger post the pandemic with strengthened liquidity and better provisions. With proper strategies in place the banks are expected to come out with robust growth models and recovery of stressed assets. With the government's focus on financial inclusion and digital adoption the overall financial sector is poised for growth in the long term. With the change of landscape in the insurance sector due to the pandemic, insurance penetration has been like never before and we foresee more innovative products in the coming years.

This issue carries interesting articles and we hope that the readers enjoy reading them.

Stay safe and happy reading!

PERSONAL FINANCE

UNION BUDGET 2021 – SHOW ME THE MONEY!

Impact on Investment and Personal Finance

CMA Soumit Das
Consultant

Budget 2021-22 was presented on February 1, 2021 amid a challenging macro environment. With the first decline in nominal/real GDP in four decades, the Government of India (GoI) had to walk the tightrope, which they seem to have done. Though there is no large fiscal stimulus, the absence of any tax hikes and better fiscal math by this renewed and bold GoI provides extreme comfort.

Highlights of the Union Budget 2021:

- **Relief for seniors, small taxpayers -** No tax filing for seniors above 75 with only pension, interest income. A dispute resolution committee for small taxpayers is being planned. Anyone with taxable income of up to Rs 50 lakh, disputed income of up to Rs 10 lakh eligible to approach dispute resolution committee.
- **Fuel and Liquor cess -** Agri Infrastructure and Development Cess on a number of items including fuel and liquor was announced but the finance minister also said there would be no additional burden on the consumer overall. Budget imposed a Rs 2.5 per litre agri infra cess on petrol, Rs 4 on diesel, and of 100% on alcoholic beverages.
- **Atmanirbhar Bharat -** The FM outlined six pillars of proposals to strengthen the vision of Atmanirbharta, namely:

Six Pillars of Atmanirbharta	
1.	Health and Wellbeing
2.	Capital and Infrastructure
3.	Inclusive Development
4.	Reinvigorating Human Capital
5.	Innovation and R&D
6.	Minimum government and maximum governance

- **A Bank for Roads -** The Govt is set to introduce a Development Financial Institution (DFI). Rs 20,000 crore will be provided to capitalise the new DFI, with an aim to have a lending portfolio of Rs 5 lakh crore in 3 years. National Monetisation Pipeline for brownfield projects will be launched, the FM announced with NHAI and PGCIL having sponsored one InvIT each. She also added that vehicles will undergo fitness tests after 20 years for PVs, 15 years for CVs, announcing a voluntary vehicle scrapping policy.
- **Big Borrowing -** The Finance Minister said govt will borrow Rs 80,000 crore in the remaining two months to meet FY21 expenditure, and is projected to borrow about Rs 12 lakh crore in FY22.
- **Banking and Companies -** The Govt plans to allot Rs 20,000 crore for bank recapitalisation of PSBs. The FM also proposed to revise definition under Companies Act, 2013 for small companies by increasing their threshold for capitalisation
- **Fiscal Positions -** The Finance Minister pegged FY21 fiscal deficit at 9.5% of GDP, with FY22 fiscal deficit target at 6.8% of GDP. Hope to get to back to fiscal consolidation path by FY26. Fiscal deficit will reach below 4.5% by FY26. FY22 gross expenditure seen at Rs 34.83 lakh crore. Allowing a normal ceiling of net borrowing for the states at 4% of GSDP for 2021-22. Additional Borrowing ceiling of 0.5% of GSDP subject to conditions. NSSF Loan to FCI for food subsidy to be replaced by making budget provisions Rs 1,18,452 crore as Revenue Deficit grant to 17 states in 2021-22.
- **Agriculture Credit** - The Budget set agriculture credit target of Rs 16.5 lakh crore for FY22, and will further increase provision to rural infra development fund to Rs 40,000 crore from earlier Rs 30,000 crore. The Finance Minister said the govt is committed to welfare of farmers, pointing at how 1.54 crore farmers benefited from MSP in paddy and wheat in FY21. Furthermore, underlined that Rs 75,060 crore was paid to farmers for wheat in FY21 versus Rs 62,802 crore in FY20.
- **One-Nation, One-Ration Card -** 69 crore beneficiaries (86% beneficiaries) were covered under the One-Nation, One-Ration card implemented by 32 states and union territories.

- **Major Allocations (Rs Crore)**:

In Rupees Crores	
Ministry of Housing and Urban Affairs	54,581
Ministry of Health and Family Welfare	73,932
Ministry of Education	93,224
Ministry of Railways	1,10,055
Ministry of Road Transport and Highways	1,18,101
Ministry of Agriculture and Farmers' Welfare	1,31,531
Ministry of Rural Development	1,33,690
Ministry of Home Affairs	1,66,547
Ministry of Consumer Affairs, Food and Public Distribution	2,56,958
Ministry of Defence	4,78,196

- **Shot in the arm for healthcare -** The allocation to healthcare in this budget has been increased substantially. The areas of focus will be preventive and curative healthcare as well as well-being. The allocation is likely to be around Rs 2,23,846 crore, a 137% percentage rise from the previous budget. Rs 35,000 cr has been budgeted for COVID-19 vaccination expenditure in FY22.
- **Revised customs duty structure -** Propose to review more than 400 old exemptions to customs duty, and from October 1 will put in place a revised customs duty structure free of any distortion, the FM said. Govt plans on reducing customs duty uniformly to 7.5% on products of non-alloy, alloy and stainless steel, exempting duty on steel scrap till March 2022. The FM added that to provide relief to copper recyclers, the govt will be reducing duty on copper scrap from 5% to 2.5%.
- **Infrastructure -** Vehicle scrapping policy to phase out old and unfit vehicles. All vehicles to undergo fitness test in automated fitness centres every 20 years (personal vehicles), every 15 years (commercial vehicles). Metro services announced in 27 cities, plus additional allocations for Kochi Metro, Chennai Metro Phase 2, Bengaluru Metro Phase 2A and B, Nashik and Nagpur Metros. National Hydrogen Mission to be launched to generate hydrogen from green power sources. Recycling capacity of ports to be doubled by 2024. Gas pipeline project to be set up in Jammu and Kashmir.

Equity Outlook

- The Union Budget was tilted more in support of Growth even at the cost of higher borrowing
- Govt.'s increased focus on infrastructure and no tax rate hikes cheered markets
- The Budget is aimed at supporting employment and businesses by spending, rather than worrying about near-term fiscal position
- We view the Budget announced as market friendly and hence we remain constructive on equities and expect returns to be front-ended
- The budget resonates with our view that economic environment is becoming more conducive for a business cycle recovery
- We continue to remain positive on sectors which are closely linked to economy like Banks, Capital Goods, Infrastructure, Metals/Mining etc.
- We believe, the current market rally may continue till the below mentioned triggers play out:
  a) US acknowledging inflation and in conclusion pausing stimulus
  b) US Treasury Yields reaching 2%
  c) Crude Oil touching 60-65$/bbl, which may lead to high inflation

- We continue to prefer Equity Mutual Fund Schemes which manage equity exposure dynamically and which focus on segments which are available at a discount to the broader market

Fixed Income Outlook

- The budget has given precedence to growth over fiscal consolidation
- The higher borrowing program to meet the increased expenditure resulted in bond markets reacting negatively
- Going forward, monetary stimulus may hand over the baton to fiscal stimulus, for a sustainable growth recovery
- Higher fiscal support may result in growth recovery to be strong; which may lead to pick-up in credit growth and risk of inflation moving higher. This may result in interest rate volatility
- Capital gains strategy has played out meaningfully and going forward return expectations need to be rationalized.
- RBI is expected to continue gradual normalization of liquidity management operations as the growth & economic activity picks-up
- We believe that we are at the fag end of interest rate cycle and in the current phase, more nimble and active duration management strategy is recommended to benefit from high term premium and to mitigate portfolios from high interest rate sensitivity
- We continue to recommend Accrual strategy with an aim to benefit from higher carry

Market strategy

The FY22 Union Budget, the first since the COVID-19 pandemic outbreak, has been announced amid a challenging backdrop. While the economy and markets have rebounded sharply from the lows triggered by COVID, the economy still has massive ground to catch up. Ahead of the budget, a) fears/concerns of a potential increase in taxation for the super-rich / the imposition of a COVID 'cess' and b) hikes in capital gains taxes had kept the market nervous for couple of weeks.

However, these fears fortunately did not materialize, which cheered the markets. They rose 5%, marking the best rally since 1997 on a budget day.

Growth revival is the central theme for this budget, and the finance ministry (FM) has chosen to use capex / infra investments as a vehicle to drive growth. The FM has significantly increased allocation to Healthcare given the backdrop of the COVID-19 pandemic. Allocations to several infrastructure schemes have also been enhanced (Roads and Water – Jal Jeevan Mission). Numerous important structural measures – such as a) the setting up of a Development Finance Institution (DFI), b) establishment of Asset Reconstruction Co. (ARC) / Asset Management Co. (AMC) for the disposal of stressed assets, c) a comprehensive asset monetization plan, d) a scrappage scheme for the Automobile sector, e) an FDI hike in insurance to 74%, and f) potential divestments of two PSU banks and a GIC – stood as the key highlights.

No material push was seen in terms of consumption in the budget. However, we note from 3QFY21 corporate earnings that consumption demand revival is progressing quite well, with high-double-digit volume growth footprints from many staples and discretionary companies.

We would have also liked to see more incentives/push for the Real Estate sector, which is showing early signs of recovery after a prolonged period of stagnation.

Overall, from an equity market perspective, we believe the budget, on balance, has turned out well, with no negatives on the taxation front and several long-term structural initiatives that augur well for medium-term growth. The push for capex and investments could trigger the revival of an investment cycle, in our view, which could then spread to multiple sectors – Cement, Auto, BFSI, Metals, and Capital Goods. This is further corroborated by the commentary on capacity utilization from corporates that have reported 3QFY21 earnings thus far.

We believe once the fine-print is absorbed, the market focus would return to the fundamentals, viz. corporate earnings growth, which is showing tangible momentum. Earnings upgrades are seen for the second consecutive quarter. Incrementally, earnings drivers are shifting to cyclical, with Corporate Banks, Cement, and Metals driving growth.

Key Takeaways for Personal Finance - What is in it for me?

- ✓ No changes in Tax Slabs
- ✓ No ITR for senior citizens above 75 years with only pension and interest income
- ✓ Pre-filled Tax-Forms for hassle free return filing
- ✓ Maturity/ redemption of ULIPs bought after February 1, 2021 to be taxable if annual premium exceeds Rs.2,50,000/-
- ✓ Faceless tax dispute resolution mechanism for small taxpayers
- ✓ Interest earned on annual PF contribution over Rs.2,50,000/- to be taxable
- ✓ Deduction on Home Loan Interest extended till 31st March 2022
- ✓ Setting up an investment charter to reduce mis-selling of financial products
- ✓ Deposit Insurance Cover to take care of faster access to deposits, if bank fails

Here is how the Budget 2021-22 is going to impact Personal Finance decisions:

- Interest on employee's share of contribution to Employees Provident Fund (EPF) in excess of Rs.2.5 lakhs in a year will be taxable at the stage of withdrawal w.e.f. April 1, 2021. This will lead to higher tax liability for individuals in the higher salary bracket who make higher contribution and will discourage voluntary EPF contributions. Union Budget 2020 had introduced, if employer's contribution to EPF, NPS and superannuation fund on aggregate basis exceeds Rs 7.5 lakhs in a financial year, then the excess amount will be taxed in the hands of an employee. This may make EPF a less attractive retirement scheme.

- Proceeds from Unit Linked Insurance Plans (ULIPs) issued on or after February 1, 2021 will be taxable as capital gains upon maturity or withdrawals, if the amount of annual premium exceeds Rs.2.5 lakhs, except in cases of death maturity. Where a taxpayer pays premium on multiple ULIPs issued on or after February 1, 2021, exemption shall apply only to those ULIPs where aggregate annual premium does not exceed Rs.2.5 lakhs. This will discourage HNIs from generously investing in ULIPs, who were availing of this tax exempted product. Further, maturity of ULIPs to be subjected to Securities Transaction Tax at 0.001%.

- Taxpayers will now be relieved from estimating their dividend income while paying advance tax, as advance tax will now be payable on dividends only upon declaration or payment by the company. This will save payment of interest by taxpayer due to under-estimation while paying advance tax. TDS at Treaty Rates will be applicable for Dividend Income of FPIs received on or after April 1, 2021.

- Resident Senior Citizens aged 75 years and above who are earning only pension and bank interest are not required to file income tax. On the basis of declaration submitted by such taxpayer, bank has to compute taxable income and deduct tax.

- In addition to salary income, bank accounts, tax payment and TDS details, prefilled income-tax returns will now include details of capital gains from listed securities, dividend income, interest from banks and post office.

- Tax exemption for affordable housing further extended by 1 year. Enhanced deduction of Rs.1.5 lakhs under Sec 80EEA, over and above the existing deduction of Rs.2 lakhs under Sec 24 , for interest on home loan for a house valued upto Rs.45 lakhs for loans taken before March 31,2021 , has been extended to March 31,2022. This will benefit middle-class first-time home buyers.

- Relief for individuals invested in overseas retirement funds, who faced hardships on account of double taxation due to mismatch in timing of taxation in different countries. Central Government will announce rules to determine the manner and year of taxability of income from overseas retirement funds opened by resident taxpayer while they were residing in a foreign country.

- Time limit for filing revised income-tax return is reduced by 3 months. Accordingly, last date to file income-tax return now stands at December 31 after the close of tax year. Similarly, time line for completion of assessment has been reduced by 3 months. This will reduce the overall tax compliance timelines and create practical difficulties for taxpayers with overseas income in claiming tax exemptions, where such benefit is dependent on tax filing in other countries.

- To reduce litigation and provide impetus to small and medium taxpayers, settle disputes at initial stages, Dispute Resolution Committee (DRC) to be set up for taxpayers with taxable income of up to Rs.50 lakhs and disputed income of up to Rs.10 lakhs. All proceedings before Dispute Resolution Committee (DRC) to be faceless and jurisdiction-less.

- National Faceless Income-Tax Appellate Tribunal Centre proposed to be set up for all second level appeal cases.

- Time limit for reopening of assessment halved to three years. In serious tax evasion cases, where there is evidence of concealment of income of Rs.50 lakhs or more, it would be 10 years, but only with the approval of Principal Chief Commissioner.

- Budget 2021 has left tax slabs unchanged and instead restricted the incentives to ease of filing returns. This has made it necessary for tax payers to re-evaluate the pros and cons of the new tax system and the old one introduced in Budget 2020, to maximise the post-tax income. The new concessional tax regime that offers an individual the option to choose lower tax rates come at a price of forgoing certain tax exemptions and deductions. These include Standard Deduction, exemption towards HRA, LTA, Loss from House Property, deduction towards Provident Fund contribution and Life Insurance premium. Table of applicable Tax Rates under the old regime and new regime are as under:

Tax Slab (Rs.)	Old Tax Rates	New Tax Rates	Surcharge Rate	Effective Tax Rate
0 – 2.5 Lakh	0 %	0 %	Nil	Nil
2.5 Lakh – 5 Lakh	5 %	5 %	Nil	5.20%
5 Lakh – 7.5 Lakh	20 %	10 %	Nil	20.80% or 10.40%

7.5 Lakh – 10 Lakh	20 %	15 %	Nil	20.80% or 15.60%
10 Lakh – 12.5 Lakh	30 %	20 %	Nil	31.20% or 20.80%
12.5 Lakh – 15 Lakh	30 %	25 %	Nil	31.20% or 26.00%
15 Lakh – 50 Lakh	30 %	30 %	Nil	31.20%
50 Lakh – 1 Crore	30 %	30 %	10 %	34.32%
1 Crore – 2 Crore	30 %	30 %	15 %	35.88%
2 Crore – 5 Crore	30 %	30 %	25 %	39.00%
5 Crore and above	30 %	30 %	37 %	42.74%

** Applicable surcharge will be levied on the income tax*
** 4% Higher Education Cess is applicable on income tax and surcharge payable*
** Effective Tax Rate = Tax rate + Surcharge if applicable + 4% Higher Education Cess*

The new regime is beneficial to individuals with fewer exemptions and deductions to claim. Thus, availing the new Tax Rates would increase their disposable Income after Tax. However, the old regime is more beneficial for individuals with higher income levels and tax saving investments qualifying for deductions or exemptions. Taxpayers should combine the exemptions and deductions and deduct them from their salary to see what is their taxable income and what it would be if they let go of these deductions. This should be the deciding factor for which regime they should opt for. Taxpayers with income from Salary can choose afresh from the options every year, provided there is no income from Business or Profession and intimate their employer for deduction of tax accordingly. However, a non-salaried taxpayer cannot opt-in and opt-out of the new tax regime every year. Once a non-salaried taxpayer opts out of the new tax regime, they cannot opt-in again for the new tax regime in the future.

- In order to reduce mis-selling of financial products, the Finance Minister announced setting up of an Investment Charter. This Charter would pertain to investors of all financial products. Details are awaited on this announcement, but this charter is expected to lay down rights of investors.

- The Finance Minister announced that in case a bank fails or withdrawals from the bank are stopped due to financial pressure on the bank, the depositors will be able to get immediate access to their deposits upto the Deposit Insurance amount of Rs 5 lakhs i.e. the amount to which deposits are insured under the 'The Deposit Insurance and Credit Guarantee Corporation Act, 1961. This will greatly help depositors in meeting immediate financial needs.

Important provisions Individual Tax Payers should know to maximise their Post Tax Income

- The Leave Travel Concession (LTC) Cash Voucher Scheme was introduced by the Finance Minister in October 2020 to boost consumer demand and to provide Tax benefit to individuals, who are unable to claim the usual LTC tax benefit due to Covid-related travel restrictions. This scheme allows Taxpayers to buy goods and services worth three times the deemed LTC fare between October 12, 2020 and March 31, 2021. If the Taxpayer spends less, the tax exemption gets proportionately reduced. The money must be spent on goods and services that attracts GST of 12% or more. The payment must be made through digital mode including cheque and UPI. The employee must produce the GST Invoice to claim the amount from employer.

- Capital Gains on sale of all listed securities in India held for more than 12 months are treated as Long Term Capital Gains or LTCG. Unlisted Shares and Immovable Property have to be held for more than 24 months to qualify as LTCG. In all other types of Capital Assets, including debt oriented Mutual Funds; sale after 36 months will qualify as LTCG.

When securities (listed other than a unit/equity oriented Mutual Fund/Zero Coupon Bonds) are held for up to a year, the gain is treated as Short Term Capital Gains or STCG. All other types of Capital Assets if holding period is up to 24 or 36 months, will qualify as STCG.

Taxability of Capital Gains are as under:

Financial Asset	LTCG	STCG
Equity Shares	Gains upto Rs.1Lakh is exempt. Balance taxable at 10% without indexation	15% *
Equity Mutual Funds		15% **
Debt Mutual Funds	20% with indexation	Tax at slab rate
Listed Tax-Free Bonds	10% without indexation	Tax at slab rate
Listed Debentures		Tax at slab rate

** If STT of 0.1% each is paid by both buyer and seller*
*** If STT of 0.001% is paid by seller*

Loss from transfer of a long-term capital asset can be set off only against gain from transfer of any other long-term capital asset in the same year, but cannot be set off against short-term capital gains. However, loss from transfer of a short-term capital asset can be set off against gain from transfer of any other capital asset in the same year. Any unutilised capital loss after absorption in the same year, can be further carried forward up to next eight years and utilised under the same conditions. In order to carry forward any losses, taxpayers should file Income Tax Return before July 31.

- Investment in Residential Property has become very attractive in recent times, with slash in Property Prices, Mortgage Rates and Stamp Duties in states like Maharashtra and Karnataka. Along with these cuts, the Tax break comes as an added bonus.

The principal amount in the home loan EMIs (Equated Monthly Instalment) paid during a Financial Year is an allowable deduction from gross total income under Sec 80C of the Income Tax Act. Under Sec 24 of the Income Tax Act, interest amount in the home loan EMIs paid on self-occupied property, is subject to a maximum deduction of Rs.2 lakhs under the head 'Income from House Property'. It can be set off against other heads of income including Salary income, during the same year. This benefit is available for up to two self-occupied House Property. However, in order to claim this deduction, the acquisition or construction should be completed within 5 years from the end of the financial year in which the loan was taken, else the deduction will be limited to Rs. 30,000 only. In case of let out Property, the difference between the rent received after adjustment of municipal taxes paid, standard deduction and entire interest on home loan is 'Loss from House Property', which can be set-off up to Rs.2 lakhs against other income. The surplus interest which could not be set off against any other income viz. Salary and Other Sources during a Financial Year, can be carried forward for up to eight assessment years. However, such carried forward surplus interest can be set-off only against 'Income from House Property'.

An additional deduction of Rs.1.5 lakh under Sec 80EEA has been introduced for interest on Home Loan, taken during the period April 1, 2019 to March 31, 2022 for purchase of

Residential Property with Stamp Duty value up to Rs.45 Lakh. However, this deduction is available only to those individuals, who do not own any other Residential Property at the time of loan sanction.

Purchase of House Property jointly with Spouse has Tax Advantage, as each one will be entitled to a deduction of Rs.2 lakh under Under Sec 24 of the Income Tax Act, for interest on EMI paid by them. Similarly, each one will also be eligible for the additional deduction of Rs.1.5 lakh under Sec 80EEA.

Under the existing rule, the transaction value of the Property purchased should not be less than the circle rate for stamp duty valuation. However, a variation of 10% was acceptable. In case the stamp duty valuation rate was higher by 10% of the declared purchase value, then the difference was taxed as income in the hands of the buyer. In November 2020, to boost the Real Estate Sector, this variation threshold has been increased to 20%. However, this benefit is available only for first time allotment of residential units during the period November 12, 2020 to June 30, 2021, with purchase value of up to Rs.2 Crore.

- Those Working from Home (WFH) and their Employer is reimbursing expenses like telephone, internet, printing and stationery expenses, need not pay tax on these reimbursements. The employees may need to provide the required bills to the employer for claiming these reimbursements, as per corporate policy.

- Millions have lost their jobs during this pandemic. Lack of suitable job opportunities have compelled many job seekers to become freelancers in their respective domains. The fees received by such freelancers from their clients will be taxed under the head 'Profits and Gains from Business or Profession'. These Professionals can claim deduction of various expenses associated with their profession. Depreciation can be claimed on capital expenditure incurred for purchase of assets such as furniture, computer or laptops. Other expenses related to their profession like office rent, stationery, data and telephone bills, travel etc can also be deducted from professional fees received from clients.

The first budget for this decade indeed came as a pleasant surprise. In a nut shell, the budget struck the right notes on many counts:

- ✓ Transparent and credible budget arithmetic
- ✓ Thrust on Investments versus Consumption
- ✓ Thrust on Capital expenditure versus Revenue expenditure
- ✓ Thrust on job creation versus sops
- ✓ Financial sector reforms to reinvigorate appetite to finance growth.

It's a feel-good budget, which the market was looking for, basking in the glory of sustained corporate earnings revival. As we emerge from the unprecedented times, a bold budget like this, which gives more than it takes, demonstrates that the government means business, encouraging people to invest. Thereby building trust. However, implementation will be the key to maximise the intended benefits of the Budget.

Source and Reference:

Motilal Oswal Financial Services
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FINANCIAL IMPACT ASSESSMENT

CLIMATE CHANGE RELATED FINANCIAL RISKS: FINANCIAL STABILITY

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[Hither to relegated climate changes and its potentially disruptive impacts have now assumed alarming dimension posing an unprecedented challenge to the global socio-economic and financial systems. Paris Agreement to initiate effective steps to reduce "as soon as possible" Green House Gas (GHG) emissions on a global scale to keep global warming "to well below 2 degrees" Celsius and to pursue efforts to limit the rise to 1.5°C, was a major political achievement. Climate-related risks are not just future risks; they are already impacting the economy and financial system today. These risks have potential to impair the safety and soundness of individual financial institutions having financial stability implications for the insurance and banking systems with rippling ramified implications for real sector too. Incorporating climate change related risks into risk management process is now on the radars banking regulators across the world.

Increasing numbers of organisations have since been showing greater interest in and commitments to reach certain goals towards attainment of carbon-neutral footprints and reduction of CO2 emissions. If SCR is not influencing decisions today, it soon will be.]

Introduction

Hither to relegated climate changes and its potentially disruptive impact now assumed alarming dimension posing an unprecedented challenge to the global socio-economic and financial systems. The evolving trajectory of production processes and changing of consumption preferences cause emissions of increasing volumes of greenhouse gases (GHGs), particularly carbon dioxide (CO_2), increasing the concertation thereof in the atmosphere beyond sustainable threshold level of our ecosystem's absorptive and recycling capacities. As per the estimate of Intergovernmental Panel on Climate Change (IPCC),in the scenarios considered by the IPCC, unless incremental efforts are

made towards reduction of carbon emission global warming is likely to exceed 4°C above pre-industrial levels by 2100 as against estimated rise of 1°C so far. Consequential continued increase in atmospheric temperatures has been affecting the global ecosystems and socioeconomic systems (IPCC (2018). Climate science indicates that the worst impacts (viz., rise in sea level, surge in weather fury, droughts and floods, and soil erosion) are yet to fully manifest their perilous potential. Concomitant fallout could be large scale extinction of wildlife, sharp increases in human migration, conflicts, poverty and inequality (Human Rights Council (2019), IPCC (2018). United Nations Climate Change Conference (COP21) (2015) and resulting Paris Agreement ((UNFCCC (2015)) ratified by 184 countries to initiate effective steps to reduce "as soon as possible" GHG emissions on a global scale to keep global warming "to well below 2 degrees" Celsius and to pursue efforts to limit the rise to 1.5°C, was a major political achievement. The emerging situation calls for immediate effective steps to reduce GHG emission to save the planet from impending catastrophe.
However, commensurate ground level and policy level activities in this regard are not that visible as of now. Countries are seen veering off the agreed course in honouring their commitments under the Paris Agreement on climate change. There continue to exist disconnect between Government actions at ground level and decarbonization path agreed to. Three of the world's largest economies viz., China, Japan and South Korea (world's, sixth and eighth largest CO2 emitters respectively) joined the EU, the world's third largest source of CO2, to recently announce plans to achieve carbon neutrality by 2050/2060 giving scanty details of the process or funding in respect of these new transition plans, rendering it hard to see how these targets posing hard challenges could actually be reached. While China continues to build and export thermal coal plants ,South Korea gets5% of its electricity from renewables now. Japan's reliance on fossil fuels has actually risen in recent years, following the nation-wide shutdown of nuclear reactors after the Fukushima disaster.
Increasing concentration of green House Gases (GHG) in the atmosphere have been constantly bringing about irreversible and unpredictable changes in climate dynamics having significant ripple effect in the social, economic and geopolitical frontiers. Climate-related financial risks arising from climate changes having potential to impact the safety and soundness of individual financial institutions with ramified implications on financial stability. Climate changes pose risks of different kind and dimensionality to the stability of the financial system, particularly for the insurance and banking sectors.

Classifications of Climate Change risks

Risks posed by climate changes can be broadly classified into three categories viz., Physical Risk, Transition Risk and Liability Risk.

We may face more frequent or severe meteorological events like storms, heavy rains; hydrological events viz., flooding, and other climatological events viz., droughts and wild fires. These events engender 'physical risks directly impacting our society and have the potential to cause losses to the economy as a whole and the people individually. Physical impacts of increasing severity and frequency of extreme climate-change related events, and longer-term gradual shifts happening in the climatic behaviour involve potential economic costs and financial losses viz., through the large cost of repairing infrastructure and coping with uninsured losses.

Of late global economic losses from extreme weather events having significant impact on the wider economy have been on the rise. For instance, in the events of weather-related damages causing impairment of the value of houses, reducing the wealth of homeowners, there could be a knock-on effect on overall spending in the economy.

Transition risks are the risks involved in our transition towards a less polluting, greener economy emitting less of GHGs. Such transitions could result in some segments of the economy facing large decline in asset values or higher costs of doing business. While speedier transition to a greener economy would be risk mitigating, it might vitiate sustainability of certain more vulnerable sectors (coal, oil and gas etc.) and trigger financial stability issues. If policy changes are brought about in line with the Paris Agreement a significant part of the world's fossil fuel reserves would be rendered unusable (stranded) impairing the value of investments held by banks/ insurance companies in sectors like coal, oil and gas. The move towards a greener economy could impact companies that produce cars, ships and planes, or use a lot of energy to make raw materials like steel and cement. The transition therefore needs be in a planned and calibrated trajectory. This will give economic agents and all stakeholders required time for adaptation and, wherever required, to reconfigure business models and reengineer the business processes appropriately in the changing business environment. Respective industries will get opportunity to leverage on new technologies and innovations that may be arriving in this space interregnum enabling better value preservation and greater value creation in the changing business environment. All these would stand in good stead in avoiding any possible consequential idiosyncratic or systemic dislocation or destabilisation in real and financial sectors otherwise.

While the physical risks from climate change have been in the reckoning for many years, transition risks are of recent appearance in risk management radar. In the backdrop of fast-changing climate policy landscape risk professionals are finding it very challenging to understand and gauge the full implications of consequentially emanating transition risk with all its nuances and ramifications and particularly how this will possibly impact specific carbon intensive and therefore sensitive sectors.

The third risk, Liability Risk, emanates from people / businesses claiming compensation for losses they may have suffered from the physical or transition risks from climate change outlined above. If investment gets impaired due to climate related events, in the absence of adequate disclosure by the business on climate related financial risk exposure the investor might seek compensation from business. Even people who have suffered from physical events, like flooding, might make claims against polluting companies who they hold, at least in part, responsible. The issue of liability risk raises the important question: "If future generations do suffer from severe climate change, who will they hold responsible?"

Visibility of climate change related risks

Climate-related risks are not just future risks; they are already impacting the economy and financial system today. Overall, worldwide economic costs from natural disasters have exceeded the 30-year average of USD 140 billion per annum in seven of the last ten years. Since 1980s, the number of extreme weather events has more than tripled. Estimates suggest that in the absence of action to reduce emissions, the resulting physical impact of climate change on the global economy in the second half of the century will be substantial. The more sophisticated studies suggest that average global incomes may be reduced by up to a quarter by the end of the century. [Network of Central Banks and Supervisors for Greening the Financial System (NGFS). Guide for Supervisors: Integrating Climate-Related and Environmental Risks into Prudential Supervision. 2020.]

The goal of a green and low-carbon economy consistent with the target of less than 1.5°C global warming above pre-industrial levels is still far off. As per the estimates of International Energy Agency (IEA) COVID-19 crisis would cause a global CO_2 decline by about 8% in 2020 (IEA, 2020). Such a reduction would be the largest in history, six times larger than the previous record reduction during the global financial crisis. To limit global warming to less than 1.5°C above pre-industrial levels, analysts estimate that global emissions would need to fall close to this year's drop every year for the coming decade (Carbon Brief, 2020).

In this backdrop, climate change which hither to being considered as an inconsequential risk driver of profitability has come to serious reckoning. Economic agents evincing increasingly greater awareness that the climate change risks are no longer a matter of distant future as was being perceived earlier but are looming threats having potential to impair values of vulnerable physical and financial assets in a significant way. They are discernibly impacting the economy and financial system today.

A recent GARP's study revealed that although a large majority of risk professionals (8 of 10 surveyed respondents) now spending comparatively lesser time on Sustainability and Climate Risk (SCR), perceive SCR issues will be a long-term strategic focus for their firms. "Failure of climate change mitigation and adaption" is the number one risk by impact and number two by likelihood over the next 10 years, according to the findings of Global Risks Perception Survey of World Economic Forum's (WEF) (vide., Global Risks Report(2020)). First five out of top 10 risks with the greatest likelihood and greatest impact in the next 10 years in WEF's list of risks are related to environment and they are : by **likelihood:**1. Extreme weather • 2. Biodiversity loss 3. Climate action failure 4. Natural disasters • 5. Human-made environmental disasters and by **impact**: 1. Climate action failure 2. Water crises 3. Extreme weather 4. Biodiversity loss 5. Weapons of mass destruction.

Manifested Financial Risks

It is now widely recognised that climate change-related risks are a source of financial risk. Climate-related financial risks are potential risks arising from climate changes. 'These risks are tied to complex layers of interactions between the macroeconomic, financial and climate systems'. These risks have potential to impair the safety and soundness of individual financial institutions having financial stability implications for the insurance and banking systems with rippling ramified implications for real sector too. These risks are classified into two main categories viz., physical and transition risks. As explained elsewhere physical impacts refer to the probable economic costs and financial losses that might devolve due to increasing severity and frequency of extreme climate-change related events as also indeterminate temporal swings in the climate. Transition risks relate to potential loss/ incremental costs associated with the process of adjusting and adhering to a low-carbon economy. The outcome of these might include substantial impairment of asset quality of borrowers in affected geographical areas; adverse effect on business models due to governmental/ societal response to climate change; devolvement of larger amount of claims due to increasing frequency and severity of natural calamities impacting profitability of insurance firms; and long-term liquidity effects.

It is recognised that policies or technology intended to mitigate physical risks of climate change could lead to a reduction in revenue and/or value of capital, and to a reassessment of the value of assets and/or likely return on investments. This could, for instance, result in assets facing sharp reductions in value (or becoming 'stranded') due to reductions in demand or expected revenues, as a result of a shift to a carbon-neutral economy.

For banks and financial institutions Physical and transition risks can manifest as financial risk in five main ways having many second-round effects and spill over effects among them

• **Credit Risk:** Physical and transition risks have potential to increase vulnerability of corporates to value erosion. Climate change and the transition to a low-carbon economy entail economic costs on households and firms which have potential to impact current as well as future expected cash flows. The physical and transition costs entailed are key determinants of their credit worthiness and therefore a source of credit risk. Direct and indirect exposure to climate-related risks impair borrowers' ability to repay their debts causing deterioration of credit quality increasing probabilities of default (PD) and loss-given-default (LGD). Besides, the potential depreciation in values of collaterals can also escalate credit risks. Thus, exposure to physical and transition risk events would entail both direct and indirect negative impact of credit risks on banks. Climate change induced credit risk need therefore be integrated in overall credit risk assessment framework of banks and financial institutions. However, financial markets are yet to adequately factor in climate credit risks in their credit risk assessment process. For example, the Central Banks and Regulators Network for Greening the Financial System (NGFS) highlights that "climate- or environmental-related criteria are not yet sufficiently accounted for in internal credit assessments in […] credit agencies' models" (NGFS 2018, p. 9).

• **Market Risk:** Severe climate related events or transition policy measures might cause re-pricing of financial instruments and corporate bond/loans, impairing the value of securities/assets borne in financial institutions' balance sheets and the value of collaterals in use. The imposition of a carbon tax has potential to entail investment losses and lower assets' values (stranded assets). In climate related risk scenario investors' perception of profitability tend to deteriorate with perceived increase in PD and LDG leading to scaling up of expected return on financial assets which are likely to suffer consequential loss in market value. Impairment of value of financial assets has potential to result in losses for banks, asset owners, and other financial institutions and non-bank lenders.

• **Liquidity Risk:** When hit by both credit and market risks banks and financial institutions might face funding liquidity risk and also market liquidity risk in more acute circumstances. Asymmetry of information on climate-sensitive exposures of financial institutions would heighten the uncertainty making price discovery process clumsy for the economic agents. This might cause 'procyclical market dynamics', including triggering of fire sales of carbon-intensive assets, which might lead to liquidity problems.

• **Operational Risk:** A financial institution's offices or datacentres might get impacted by physical risks resulting in disruption/dislocations in operational procedures rippling its effects to other institutions across its value chain and network. Extreme weather events can upset the business continuity by wrecking damages, for example, affecting critical functionalities of the entity or of its main providers.

• **Insurance Risk:** For the insurance and reinsurance sectors, more than expected insurance claim pay outs could result from physical risks, and Transition Risk. If the risks are not factored in pricing products covering green technology it might lead to under-pricing of risk leaving expected loss uncovered with consequential shortfall in capital allocation.

As financial risks emanating from physical and transition risk factors are concomitantly relevant to several segments of the economy, business, and geographies full impact thereof on the financial system would tend to be more ramified and amplified compared with that of other types of risks. Irreversibility, non-linearity, correlatedness are inherent features and tendencies these risks exhibit. Climate change related financial risks might emanate and effects thereof might get crystalised over uncertain time horizons; even may be outside the current planning horizon of the entity (tragedy of the horizon). Regressive data analysis/analytics may not be good enough predictor of impending risks. However, notwithstanding the uncertainty as to the exact outcomes there persist reasonable degrees of certainty as to the emanation of financial risks caused by physical/transition factors. It is worth mentioning that future impact will largely be governed by the actions/steps taken by the actors and stakeholders in limiting CO2 emission today.

Systemic Implications

Climate change risks (viz., Physical & transition risks) have potential to trigger systemic risks. Climate changes have potential to impact effective demand dampening consumption and to create uncertainties as to the future demand and growth making business investments prospects less encouraging triggering consequential decline in investment. A climate change is also likely to disrupt trade flows and impoverish household through possible loss and erosion in values of assets. In the supply side climate changes can impair the productive capacity of the economy through dampening impact of important supply components like supply of labour, physical capital, technology etc. While rising climatic temperatures would tend to worsen the productivity of workers and agricultural crops (IPCC (2019)) climate changes have potential to trigger massive population movements, having attendant enduring impact on the dynamics of labour market and wage behaviour. Climate change effects also have potential to trigger diversion of investment resources to innovation towards adaptation to climate changes. Damages to assets caused by more frequent or severe extreme weather events and/ or a late and/or abrupt transition to a low-carbon economy would tend to shorten the performing life period of physical assets, including real estate, and infrastructure. Studies have revealed that the macroeconomic impact of climate change, particularly on food inflation and certain indicators of real economic activity have been statistically significant for India (RBI Bulletin April 2020).

Frequency and severity of natural disasters viz., Windstorms, Wildfires, drought, heat waves, and floods are visibly on the rise. These have potential to wreck significant damages and destruction on human lives and wealth. Environmental impacts of climate changes cause, among others, extinctions of species, loss of life in natural disasters, migration of populations, diminished crop yields and scarcity of fresh water. The increasing probability of occurrence and severity of such events tend to escalate risks of banks, engaged in giving credit to manufacturers, traders, Investors, business and individuals. In this backdrop growing public consensus around the world is to strive for sustainability and effective management of climate risks.

While the physical risks of climate change are mysteriously shrouded with uncertainties of evolving climate patterns ,gauging the probable far-reaching impacts of transition risks on economic agents are hugely difficult given the uncertainties as to the contents and timings of decarbonisation policies (e.g., carbon pricing , control and regulation) that will be implemented, besides uncertainties in arrival of new low-carbon technologies and resulting changes in preferences and lifestyles that could take place.

The anticipated potential enormity of speed and volume of possible losses due to incidence of physical and transition risks, would have devastating fire power to deal a severe destabilising blow to systemically important financial institutions as also the financial markets. Besides having direct exposure to climate change risks, wittingly or unwittingly financial institutions are actively engaged in financing the activities that tend to exacerbate climate change.

The increasing incidence and severity of devastating fires, droughts, floods and hurricanes, as also rise in sea level can entail destabilizing losses on banks, other financial institutions and insurance companies, having direct and indirect exposure to different affected industries and assets. The banking system is having direct exposure to physical risks of climate change. Business loans, agri loans, mortgage, commercial real estate loans and even derivative instruments in vogue in banking system are prone to risks posed by severe weather events and other environmental changes. COVID-19 pandemic and its fallouts have brought to sharper focus the possible impacts of climate changes and environment on business of the banking sector and urgency of initiating effective and informed steps towards incorporation of the climate related risks in the overall risk management frame work of banks.

Transition/changes needed to mitigate adverse consequences of climate change would have far-reaching effects on economic agents and asset prices at large. Climate-related risks therefore would have potential to threaten of price and financial stability mandates of central banks.

Regulatory / Supervisory preparedness

Incorporating climate change related risks into risk management process is now on the radars banking regulators across the world. Climate risk regulations are in an evolving phase. The 'Central Banks and Supervisors Network for Greening the Financial System' (NGFS) was established in December 2017. As on December 15, 2020, 83 central banks and 13 observers have joined the NGFS. The NGFS accepted that "climate-related risks are a source of financial risk and therefore ensuring resilience of the financial system to these risks are mandated responsibilities of central banks and supervisors. The NGFS also acknowledged that these risks are tied to complex layers of interactions between the macroeconomic, financial and climate systems (NGFS (2019b)). In the wake of Paris Agreement (April2016) in June 2017 financial disclosure recommendations of were rolled out. Prudential Regulation Authorities (PRA) of Bank of England (BOE) issued a supervisory statement (SS3/19) in April 2019 followed by publication of the European Central Bank's report on climate change and financial stability. BOE came out with a framework for stress testing for climate change (BES2021) in December 2019 followed by issuance of the Australian Prudential Regulation Authority's climate risk prudential guidance in February 2020 and issuance of consultation/guidelines on environmental risk management by the Monetary Authority of Singapore in June 2020.

Six recommendations have been made by the network for central banks, supervisors, policy makers and financial institutions to enhance their role in the greening of the financial system and the managing of environment and climate-related risks.

The recommendations are:

a) Integrate climate-related risks into financial stability monitoring and micro-supervision
b) Integrate sustainability factors into own-portfolio management
c) Bridge the data gaps
d) Build awareness and intellectual capacity and encouraging technical assistance and knowledge sharing
e) Achieve robust and internationally consistent climate and environment-related disclosure
f) Support the development of a taxonomy of economic activities

The Basel Committee on Banking Supervision (BCBS) as part of its mandate of enhancing global financial stability has taken into serious reckoning the climate-related financial risks facing the financial institutions and need for appropriate regulatory and supervisory awareness, initiatives and readiness on the part of its members to meet the eventualities of such risks tending to trigger idiosyncratic or systemic disturbances. The recently constituted high-level Task Force on Climate-related Financial Risks (TFCR) by BCBS has carried out a survey of 27 members and observers to take stock of existing state of regulatory and supervisory initiatives on climate-related financial risks. The survey has revealed that majority of members consider it appropriate to address climate-related financial risks within their existing regulatory and supervisory frameworks. Reportedly a majority of the members have raised the matters of risk awareness with regulated-banks through different channels. Many banks are disclosing information related to climate-related financial risks to some extent. Approximately two-fifths of the respondents have issued, or are in process of issuing, more principles-based guidance regarding climate-related financial risks. But the majority of members have not factored, or have not yet considered factoring, in the mitigation of such risks into the prudential capital framework.

However, the idea of incorporating climate change impacts in working out risk-weighted assets has been receiving greater attention in recent years. Three proposals to incorporate climate change related risks into banks capital calculations with the objective to disincentivise carbon intensive loans and encourage climate-friendly activities have come up for discussion. While the proposal viz., Green Supporting Factor (GSF) envisages to incentivize banks to grant credit to green activities by lowering capital requirements for climate-friendly projects, Brown Penalizing Factor (BPF) proposes to increase capital requirements on brown activities. Green Weighting Factor (GWF) on the other hand, proposes to accelerate the greening of banks' portfolios, incentivizing green loans by combining GSF and BPF. Each proposal has its own limitations and, in the absence of any empirical research on these proposed frameworks as to their comparative effectiveness in mirroring the inherent climate related risk in respective assets and off-balance sheets exposures no specific policy preference has emerged in this regard. However, add on capital need for Climate Change Risks may be evaluated under the existing ICAAP framework by banks and may be prescribed under current Basel III (Pillar 2) framework by the regulators.

RBI as part of supervisory agenda of 2020-21 would be paying special attention to the unique risks posed by climate change in assessment of risk and compliance culture and business strategy of scheduled commercial banks.

Disclosure of Climate Change policy

For greater precision in asset price discovery, financial markets need factor in, among others, precise, comprehensive and high-quality information on the plausible impacts of climate change on top line, bottom line and cash flow of market entities. This includes the risks and opportunities presented by rising temperatures, climate-related policy, and emerging technologies in our changing world. This has brought to the fore the importance of the need for compulsory disclosure of climate change policies for more informed price discovery by the market. Regulators/Investors and other stake holders have started evincing increasing interest in disclosures of material details of climate change policies of the investee and potential investee companies/organisations for more informed decision making . Such disclosed information will enable more informed factoring in of the possible impacts of and vulnerability to climate change risks in formulation of regulatory/supervisory policy stance by regulators and in portfolio allocations process by the investors. In December 2015, the Financial Stability Board established a Task Force on Climate-related Financial Disclosures (TCFD) with the objective of developing a climate-related financial risk disclosure framework for corporates. The TCFD has since developed a framework to help public companies and other organizations towards more systematic, authentic and transparent disclosure of climate-related risks and opportunities through their existing reporting processes. The framework envisages disclosure of (i) the organization's governance around climate-related risks and opportunities; (ii) the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material; (iii) how the organization identifies, assesses, and manages climate-related risks ;and (iv) the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Beyond disclosure what is demanded by the investor community is unambiguously expressed firm commitment to carbon action initiatives on the part of the economic agents. Climate change response actions viz., emissions reductions, public disclosure of emissions reduction targets and investment in emissions reduction profitable projects are considered key and expected by the economic agents operating particularly in emission sensitive segments of the economy. Setting an internal price on carbon has been globally held as one significant initiative (vide. Paragraph 136 of the decision text of the Paris Agreement1)

Conclusion

Climate change is anthropogenic; caused by humans. The attributable causal forces operate in a very complex manner over very long-time horizon. Therefore, adverse impact of climate change is the outcome of complex interplay of a set of factors, none of which can be mapped to any specific climate-affecting human activity directly.

Impact of Climate change is now more discernible than ever before in almost every segment of the economy, viz.,' infrastructure, agriculture, residential and commercial property, public health and labour productivity'. In the absence of serious and effective action over time, towards curbing rising global average temperatures, climate change impacts would emerge as potent source of impairment of the productive capacity of the economy and weaken its 'ability to generate employment, income, and opportunity'. In the days ahead the countries around the world, will have to continue to grapple with climate change related risk impacts amidst envisaged ambitious emission reductions initiatives on the part of serious actors.

Climate related episodes poses complex risks for the global financial system. Risks might trigger 'disorderly price adjustments in various asset classes, with possible spill-overs into different parts of the financial system' having potential to disrupt the proper functioning of financial markets. As global warming aggravates economic agents might face tougher Governmental measures extracting greater price for carbon emissions or imposing greater compliance cost entailed in stricter regulation. The unprepared and less able markets and market participants would get impacted and find it difficult to ensure sustainability of business and activities in the absence of effective climate strategy in place. Consequential building up of stresses in the Financial system may 'further exacerbate disruptions in economic activity, for example, by limiting the availability of credit or reducing access to certain financial products, such as hedging instruments and insurance'.

Inherent uncertainty and complexities associated with climate change risks engender complex dynamics and chain reactions within interlinked physical, social and economic systems posing huge challenges to the central banks, regulators and supervisors in integrating these new species of risk within their existing regulatory and supervisory frameworks. Existing risk assessment framework/models based, primarily on past data will not suffice to anticipate with a reasonable degree of accuracy, the form, speed and volume that climate - related risks will eventually assume. Attempts are, however, being made to evolve scenario based forward looking analytical framework for better understanding of the impactions and ramifications of climate risks. Climate change is triggering an "epistemological break" ("discontinuous jumps" in the history of thought) in the way risk managers/investors think about risk consequent upon arrival new evidence triggering rapid shifts in knowledge, the Bank for International Settlements' Luiz Pereira da Silva said in recent remarks.

Ravages of Pandemic -19 leaving behind stressed balance sheets, build up corporate leverage, strained government budgets, and depleted household wealth would impair the resilience of the financial system making it more vulnerable to climate related shocks.

All concerned (regulators and economic agents) should appreciate that climate changes pose looming serious risks to the financial systems needing immediate effective and decisive steps to identify, measures and mitigate these risks. Towards this end capacity building, filling up of existing data gaps and sharpening of tools to better monitor, analyse, and quantify climate risks would be of prime importance.

“Given that the impact of climate change on India is expected to be one of the severest globally, the need for an appropriate framework to identify, assess and manage financial risks arising out of climate risk has become an imperative”. (RBI annual Report 2020, page-151)

Increasing numbers of organisations have since been showing greater interest in and commitments to reach certain goals towards attainment of carbon-neutral footprints and reduction of CO2 emissions. Some are going further, divesting activities with negative environmental impacts. ‘If Sustainability and Climate Risk (SCR) is not influencing decisions today, it soon will be’.

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CAPITAL MARKET

INDIAN EQUITY MARKET - RECOVERY & RENEWAL

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"Courage ***taught me no matter how bad a crisis gets… any sound investment will eventually pay off"***

- Carlos Slim

Last year will go down in history books as a year of extremes in equity markets across the globe - from panic and despair to markets climbing wall of worries with a sharp rebound and renewed optimism. **Equity market precedes economic reality** is once again proved with ground level recovery lagging market rally. We have begun to witness significant month-on-month improvement across economic data, Covid recovery cases in India as well as corporate earnings. Several high frequency data are showing improvement consistently - whether it is number of e-way bills generated, electricity consumption, railway freight volumes or car & house purchase registrations - all have picked up. In general, equity market has rightly been focusing beyond short-term demand issues and seems to be factoring-in fast approaching normalisation across many businesses.

Markets being forward looking mechanism, economy and markets can follow different paths in the short-term.

Market rally has been **driven primarily by following factors -**

- Massive stimulus announced by global central bankers,
- Low interest rates,
- Faster economic or business recovery,
- Reasonable to low equity valuations and
- Strong FII flows

Overall, huge fiscal stimulus announced by the respective countries and prudent monetary measures undertaken by the central bankers enabled the world economies to rebound in 3QCY20. We believe the **global economy will continue to heal through 2021 and beyond**.

While our April 2020 newsletter, encapsulating '***fear is more contagious than disease***' validated our belief to be aggressive in utilising panics as a buying opportunity, as we step into **2021**, we make another attempt to **list down probable behaviour** of India equity market during the course of this year. The summarised view is as under –

1) **Structural foundation of this bull market intact** with an expectation of low interest rate regime and accommodative stance to be maintained by central bankers in pursuit to revive respective economies and consequent job growth. This is likely to prevail for a fairly longish period of time globally. RBI too is expected to remain accommodative in the next fiscal. Meaningful inflation risk may still be some time away before this stance changes. Given depressed real interest scenario and lower cost of capital, equities will continue to remain as attractive investment options for all categories of investors.

"Interest rates are to asset prices what gravity is to the apple. When there are low interest rates, there is a very low gravitational pull on asset prices." - Warren Buffett

2) **Emerging market flows likely to sustain -** With further stimulus and considering US debt at elevated levels, a potential depreciation of the dollar will serve as a useful tailwind for Emerging markets (EMs). This is expected to drive flows into the EMs. Given current scenario of subdued return from fixed incomes globally and continued soft monetary policy by the global central bankers, India is likely to continue getting a significant share of FII flows in 2021 as well. Factors, driving FII inflows into Indian equities include relative higher returns from Indian economy compared to several developing & developed nations, prospects of corporate earnings recovery, government reforms, low interest rates, weaker dollar and stable rupee (due to higher forex reserves).

3) **Corporate earnings to drive next stage of rally -** Despite one of the worst human crises in recent years; government stimulus, decent monsoon, some element of pent-up demand, low interest rates, improving liquidity and higher degree operating leverage are some of the factors that contributed to improved corporate sentiments. We may be **staring at the start of multi-year economic expansion phase** because of multiple macro tailwinds.

Corporate results season for December quarter just got concluded with significant improvement and upgrades. As the economy opened and the number of COVID-19 cases was contained, 3q results witnessed a **sharp rebound** and demand recovery along-with cost savings. It has been one of the best earnings season and fairly broad-based led by cyclical sectors such as Metals, Autos, and Cement including others such as Capital Goods,Consumer, Consumer Durable companies, Pharma and Technology including Banks. We expect the earnings momentum to sustain despite partly being pent-up given that there will be further revival in the economy. Government's focus on capex spending augurs well for the revival of the long-awaited private investment cycle.

Stock prices are nothing but slaves to earnings

4) **Rally to become broad-based & divergence to narrow -** Divergence in valuations across sectors is still high. Disparities in value exist across sectors, company and market caps. As such, from a valuations perspective, the erstwhile polarised market is becoming broad-based and this trend is likely to continue. Despite the strong rally, there is still disparity between performance of

various sectors or companies and there are several pockets of value. As the market spends more time in bullish phase, 2nd line stocks or value or distress companies including the likes of capital goods & engineering, utilities, manufacturing sector, select PSUs will continue to get recognised in terms of relative undervaluation. In small caps specifically, mean reversion of distress valuation is happening deeper down the market cap curve. Small caps recover the most when economy recovers and interest rates are kept low. We believe out of favour value opportunities exist and will outperform expensive quality stocks going forward.

Price is what you pay; value is what you get – Ben Graham

5) **Sharp but short-lived corrections on the way -** Post this rally, it may be reasonable to see some consolidation or periodic corrections, including risk of developed market sell-off triggering correction in EMs. However, we expect India market declines or corrections to be violent & sharp but short lived given that incrementally factories & businesses are accelerating back to pre-covid levels. Easy money is made in times of investing & hunting for bargains during panics, a time & year that just went by. Investors will have to brave hurdles of corrections with patience for eventual returns.

Markets test patience and reward conviction

Emerging and future business trends in India –

1) **Rise of India's manufacturing**

Now given current geopolitical scenario where a large number of nations started looking for China's alternatives in the aftermath of COVID-19 outbreak, India is catching the eyes of a large number of global companies to set up their manufacturing base. The government's Performance Linked Incentives (PLI) scheme is likely to play a vital role in achieving size and scale in manufacturing segment. Total outlay for this scheme is estimated at Rs 1.5-1.7tn. Even if we assume 5% of production value is an incentive, minimum production due to PLI scheme can be close to a whopping Rs 35tn in five years ! A huge leap indeed.

2) **Restart of private capex cycle**

We believe that finally private capex cycle may start driven by several factors like low/negative real interest rate, India becoming part of global supply chain due to China +1 strategy, improving cost competitiveness, creating land banks & its acquisition for industrial projects, initiation of labour reforms, production linked incentive scheme, Rs 105tn Infrastructure pipeline, reduced corporate tax rate (15%) for new manufacturing units and favorable tariff policies to aggressively support local manufacturing. Progress on PLI along with the continued protectionist measures (import duties on Chinese goods) will crucially determine the capex activities for some key sectors such as auto, electronic manufacturing etc. Additionally, we shall continue to witness anti-China elements aiding the pharmaceuticals (API) and specialty chemical companies.

Manufacturing and capex oriented sectors are best placed now than ever before to ride the new growth cycle.

3) **Digitisation & Green technology, the next big thing**

Digitisation 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, there will be increasing thrust on automation and green technology that will benefit players in robotics, AI (artificial intelligence) and renewable energy. The green transformation of some of the traditional industries could be just a tipping point that will accelerate with government regulations, carbon neutral targets and subsidies to achieve replacement of fossil-fuel with renewable energy, accelerate electric vehicles and use of digital solutions to improve efficiency.

4) **Health & hygiene consumption**

This is another area which is emerging as a high growth area driven by spending on branded products, packaged food, nutrition & healthcare.

5) **Shift to organised players**

Theme of market share gains by the organized players from the unorganized segments due to working capital stress marred by lockdown-led disruptions and consequent unviability will continue to help several sectors like building materials (tiles, sanitary-ware, furniture, pipes, footwear, jewellery retailing, staffing services, etc). This shift will include real estate sector where large deep-pocketed organised players will gain at the cost of local small builders.

Mindful of a few existing pain points

While we do expect several interesting and positive structural and long term trends in business, as highlighted above, that will drive economic growth and equity markets over long term, it is imperative to also be mindful of some pain points that do exist in few pockets. Rise in virtual meetings can negatively impact aviation & transportation sectors. Besides, there could be impact incomes and job creation due to accelerated automation, digital disruption (e-commerce) and cost cutting drive undertaken by the corporate sector. Cost-led inflation will cast its shadow eventually, though still not yet high enough to pinch corporate sector or disrupt equity valuations.

Overall, Structural positives far outweigh the negatives to be constructive on Indian economy, business and equities.

Investment Strategy –

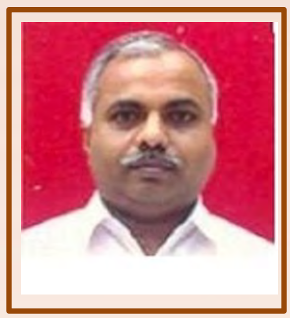
"It is impossible to produce superior performance unless you do something different from the majority" - *Sir John Templeton*

We are in the next stage of bull market cycle that will be supported by corporate earnings growth and economic expansion (v/s last year's initial stage when markets climbed wall of worries). Despite corrections or time-wise consolidation, it makes immense sense to invest in India businesses through equities for long term capital appreciation.

As always,
Stay Safe & Happy Investing.

BANKING

FINANCIAL SYSTEMS, CORPORATE FINANCE AND ECONOMIC DEVELOPMENT



CMA (Dr.) P. Siva Rama Prasad
Consultant

The 'Indian Financial System' is one of the most important aspects of the 'Economic Development' of our Country. The Economists are puzzled regarding the relationship between 'Saving, Investment and Economic Growth' ever since Economics became a Scientific Discipline. Generally, a part of Income is Saved and put into Investment. The Economy as a whole can save only as much as its Income in a Closed Economy. The Economy as a whole may reduce the Consumption Expenditure in relation to a given level of Income and increase its 'propensity to save'. An increase in the desire to save leads to an unchanged level of Saving but at a lower level of Income. If we define both 'Saving and Investment' as the difference between GDP and Consumption, it may tend to be Interpreted in Terms of Cause-and-Effect Relationship.

Globally, the Role of Domestic Saving and Domestic Investment in promoting Economic Growth has received considerable attention. High levels of Savings and Investments are attributable to India's sustained and robust long-term Growth. Efficient Intervention by Financial Sector leads to Higher Economic Growth by increasing Savings and their Optimal allocation for Productive Uses.

The Services provided by the various Financial Institutions like Commercial Banks, Insurance Companies (Life and General), Pensions and Provident Funds etc. constitute 'The Financial System'.

Given below are the Features of the 'Indian Financial System':

- ✓ It Plays a Vital Role in the Economic Development of the Country as it encourages both Savings and Investment.
- ✓ It helps in Mobilising and Allocating One's Savings.
- ✓ It Facilitates the expansion of 'Financial Institutions and Markets'.

- ✓ Plays a key Role in 'Capital Formation'.
- ✓ It helps forms a link between the 'Investor and the One Saving'.
- ✓ It is also concerned with the 'Provision of Funds'.

The Development of any Country depends on the 'Economic Growth' it achieves over a period of time. Economic Growth deals about 'Investment and Production' and also the extent of Gross Domestic Product in a Country. Only when this grows, the People will experience Growth in the form of improved 'Standard of Living', namely Economic Development.

The following are the Roles of 'The Financial System' in the Economic Development of a Country.

- ✓ *Savings-Investment Relationship*: To attain Economic Development, a Country needs more Investment and Production. This can happen only when there is a facility for Savings.

- ✓ *Financial Systems help in Growth of Capital Market*: Any Business requires Two Types of Capital namely, Fixed Capital and Working Capital. Fixed Capital is raised through Capital Market by the issue of Debentures and Shares etc. For Working Capital, we have Money Market, where Short-term Loans could be raised by the Businessmen through the Issue of various Credit Instruments such as Bills, Promissory Notes, Commercial Papers etc. Foreign Exchange Market enables Exporters and Importers to receive and raise funds for settling transactions. The Market also provides Opportunities for the Banks to Invest their Short-term Idle Funds to earn Profits.

- ✓ *Government Securities Market*: Financial System enables the State and Central Governments to raise both Short-term and Long-term funds through the Issue of Bills and Bonds which carry attractive rates of interest along with Tax Concessions.

- ✓ *Venture Capital*: The Economic Development of a Country will be rapid when more Ventures are promoted which require Modern Technology and Venture Capital. It is only through Financial System; more Financial Institutions will Contribute a part of their Investable Funds for the promotion of New Ventures. Thus, Financial System enables the creation of Venture Capital.

Thus, the Capital Market, Money Market along with Foreign Exchange Market and Government Securities Market enable Businessmen, Industrialists as well as Governments to meet their Credit requirements.

In this way, the Development of the Economy is ensured by the 'The Financial System'.

- ✓ Financial System helps in 'Infrastructure and Growth'.
- ✓ Financial System helps in 'Development of Trade'.
- ✓ Employment Growth is boosted by 'Financial System'.
- ✓ Financial System ensures 'Balanced Growth'.
- ✓ Financial System's Role in 'Balanced Regional Development'.
- ✓ Role of Financial System in attracting 'Foreign Capital'.
- ✓ Financial System helps in 'Uniform Interest Rates'.
- ✓ Financial System role in 'Electronic Development'.

India's Macro-Economic Aggregates

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
• Population (12,510 Lakhs)	• Population (12,670 Lakhs)	• Population (12,830 Lakhs)	• Population (12,990 Lakhs)	• Population (13,140 Lakhs)	• Population (13,270 Lakhs)	• Population (13,410 Lakhs)
• Gross Savings (₹. 36,08,193 Crs.	• Gross Savings (₹. 40,19,957 Crs.	• Gross Savings (₹. 42,82,259 Crs.	• Gross Savings (₹. 48,25,113 Crs.	• Gross Savings (₹. 55,38,393 Crs.	• Gross Savings (₹. 57,12,920 Crs.	• Gross Savings -NOT AVAILABLE-
• Gross Capital Formation (₹. 37,94,135 Crs.)	• Gross Capital Formation (₹. 41,79,779 Crs.)	• Gross Capital Formation (₹. 44,22,659 Crs.)	• Gross Capital Formation (₹. 49,18,077 Crs.)	• Gross Capital Formation (₹. 58,49,224 Crs.)	• Gross Capital Formation (₹. 61,08,582 Crs.)	• Gross Capital Formation -NOT AVAILABLE-

*(**Source**: RBI / National Statistical Office - NSO)*

From the above Table, Gross Savings of the Country is increase Year on Year Basis, thereby it contributes the 'Capital Formation' of the Country through the 'Financial System'. Thereby there 'Financial System' play a vital role to establish the direct relationship between the Savings and Capital Formation of the Country.

Market Overview:

- ✓ Gross National Savings nearly 30% of GDP: During FY19, India's Gross National Savings (GNS) was estimated at ₹.57.13 lakh crore (US$ 817.43 billion) at 29.7%.

- ✓ India's UHNWI population increasing trend: The Number of Ultra High Net Worth Individuals (UHNWI) is estimated to increase from 5,986 in 2019 to 10,354 in 2024. India's UHNWIs is likely to expand by 73% in the next five years.

- ✓ Robust AUM growth: Mutual Fund (MF) Industry's Assets Under Management (AUM) grew from ₹.10.96 trillion (US$ 156.82 billion) in October 2014 to ₹.25.48 trillion (US$ 361.59 billion) in June 2020. Mutual fund industry AUM recorded 9.5% CAGR during FY07-20. Globally, India is considered one of the Preferred Investment destinations. The Association of Mutual Funds in India (AMFI) is targeting nearly five-fold growth in AUM to ₹. 95 lakh crore (US$ 1.47 trillion) and more than three times growth in investor accounts to 130 million by 2025.

- ✓ Fundraising via IPOs on the rise: Across 17 Initial Public Offerings (IPOs), a total of US$ 2.5 billion was raised in 2019.

*(**Source**: IMF, ICRA, Economic Times, Capgemini Wealth Report, EY Report)*

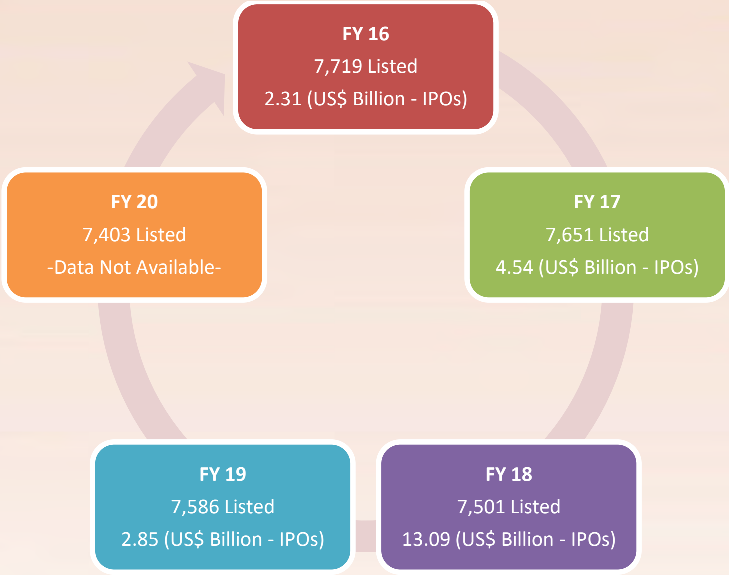
Commercial Banks are one of the sources for financing Corporates under '*Wholesale Banking*' Segment. The Role of Commercial Banks in Economic Development rests mainly on their role as Financial Intermediaries. As such, Commercial banks help drive the flow of Investment Capital throughout the Marketplace. The Mechanism of this Capital allocation in the Economy is through the lending process which helps Commercial Banks.

'Development of Industry' is an essential prerequisite for the development of the Economy of a Country. Needless to say, that it is absolutely imperative to have a proper supply of Finance for the

Industrial Sector to 'Develop and Prosper'. Commercial Banks, inter alia, of a Country have to play a 'Pivotal Role' in this respect, especially when the Economy is a Budding One. The Economy of India has grown at a rapid pace since the 'Economic Liberalisation Process' took off in 1991-92. With the onset of this process, the 'Capital Market in India' has become a major source of 'Industrial Finance'. But one must not forget that in the pre-liberalisation era, the support in this respect was provided mainly by the '*Commercial Banks*'.

Capital Market evident through Number of Listings

(Companies listed on NSE and BSE & Amount raised by IPOs - US$ billion)



♣ In FY20, Number of listed companies on NSE & BSE were 1,942 and 5,461, respectively.
♣ In 2019, US$ 2.5 billion was raised across 17 initial public offerings (IPOs).

*(**Source**: SEBI)*

Role of Major Industries in Indian Economic Development

Industrialization is regarded essential for Rapid Development of any Country since Industrial Revolution. An Economy is made from the composition of many different Industries like Agriculture, Service, Engineering, Manufacturing etc. These Industries provide so many benefits to the Economy i.e., Employment Generation, Production of Goods and Services, Equal Income Distribution in the Whole Economy. Service Sector Contributes 60% of the Indian GDP while Agriculture gives around 14% of GDP**.**

Iron and Steel Industry: This is one of the most important Industries considering 'Total Investments' and are typically Public Sector Plants. Further, the Industry offers Direct Employment to around 2.5 Lakh Workers.

Textile Industry (Cotton and Synthetic): It accounts for around 20 percent of the Industrial Output, also provides Employment to over 20 Million Individuals and Contributes around 33 percent of the Total Export Earnings.

Jute Industry: The Jute Industry has the Capacity to earn Foreign Exchange. India Accounts for 30 percent of the World's Jute Output. The Industry provides Direct Employment to nearly 2.5 Lakhs Individuals and nearly 40 Lakhs Families derive their living from Jute Cultivation.

Sugar Industry: India is one of the World's Largest Sugar Producing Countries and also the Sugar Industry is India's Second-largest Agro-based Industry. It Employs nearly 3.25 Lakhs Workers and creates 'Indirect Employment' for around 45 Million Farmers of Sugarcane, Agencies of Distributive Trade, and also Subsidiary Industries.

Cement Industry: India being One of the Largest Cement Manufacturing Countries Globally, the Cement Industry Employs over 2 Lakhs Individuals.

Petrochemical Industry: Further, the discovery of 'Crude Oil and Natural Gas' in the offshore Region along the Western Coast of India added a New Dimension to the possibility of Expansion of Petrochemicals.

Automobile Industry: As the Economy Liberalized, the Automobile Industry experienced tremendous growth. New Manufacturers with State-of-the-art Technology.

Information Technology (IT) Industry: One of the Latest entrants to the List, the IT Industry is Spreading Fast in India. Further, with many US and EU firms working with Contract Agencies in India and China for IT Software and Services, Outsourcing has acquired an International Dimension.

Indian Commercial Banks Lending to Corporates / Industries

Industry	Mar. 29, 2019	Mar. 27, 2020
Mining & Quarrying (incl. Coal)	41,752	43,927
Food Processing	1,57,058	1,54,146
Beverage & Tobacco	14,662	16,522
Textiles	2,03,549	1,92,424
Leather & Leather Products	11,071	11,098
Wood & Wood Products	11,968	12,233
Paper & Paper Products	30,319	30,965
Petroleum, Coal Products & Nuclear Fuels	63,136	75,834
Chemicals & Chemical Products	1,91,484	2,02,949
Rubber, Plastic & their Products	45,803	50,415
Glass & Glassware	9,887	8,777
Cement & Cement Products	55,683	58,689
Basic Metal & Metal Product	3,71,564	3,50,325
All Engineering	1,68,621	1,57,259
Vehicles, Vehicle Parts & Transport Equipment	79,859	82,606
Gems & Jewellery	72,014	59,515
Construction	99,473	1,04,288
Infrastructure	10,55,921	10,53,913
Other Industries	2,01,954	2,39,266
Total	28,85,778	29,05,151

***(Source:** RBI)*

Wholesale Banking in India

Providing 'Banking Services' to other Commercial Banks, Mortgage Brokers, Large Corporate, Mid-size Companies, Real Estate Developers, International Trading Businesses, Institutional Customers or other Corporations comes under 'Wholesale Banking'. The Services which come under the Net of Wholesale Banking involves Wholesaling, Underwriting, Market Making, Consultancy, M&A, Joint Ventures, Fund Management etc. The Focus in Whole sale banking is on High-value Transactions.

Due to continued 'Globalisation of Indian Companies', increase in Infrastructure Spending, Stable Government, Robust Markets, Stable Currency, Low Deficits, etc. India is being considered as a favourable Investment Destination and thus presents a strong case for the growth of 'Wholesale Banking'. Hence Wholesale Banking Comprises a major share of the Banking Revenues due to the above factors and also due to an increased inclination of Government towards 'Mid-segment Companies' which have increasing Banking requirements.

'Corporate Banking' comprises a major share i.e., approximately 85% in Whole Sale Banking. Likewise, with the rebound of Economy and a Positive Outlook, the possibility of a Growth in Investment Banking, M&A etc. is highly likely.

'Wholesale Clientele' is highly significant for Banks to drive Business as Banks provide various forms of Banking Solutions like Project Finance, Leasing Finance, Working Capital Finance, Merchant Banking, Syndication Services etc.

The major Indian Banks which are involved in Wholesale Banking are – State Bank of India, ICICI, IDBI Bank, Canara Bank, Bank of India, Punjab National Bank, Bank of Baroda, Central Bank of India etc.

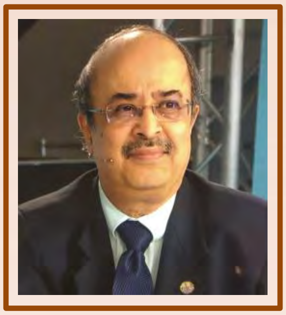
Conclusion:

The 'Financial System' plays a crucial role in the 'Economic Development' of a Country. Businesses and Industries are financed by the 'Financial Systems' which lead to growth in Employment and in turn increase the 'Economic Activity'. Domestic Trade Financial Intermediaries help improve Investment Efficiency, leading to Higher Economic Growth.

The framework of Mixed, Capitalist Economies have sought to use the developing 'Banking Function' which is embedded in available or specially created Institutions to further their development goals. The Role of these Institutions in the Development Trajectories of late Industrializing, Developing Countries cannot be overemphasized.

BANKING

HOW GOOD IS BAD BANK? OR IS BAD BANK GOOD?



Shri B Rajkumar
Advisor, BFSI Committee of ICAI &
Former Dy. Chief Executive, Indian Banking Association

This is a million dollar question ringing in the Financial Corridors. Bad bank is a good concept to take over the bad assets of a Bank, to cleanse its balance sheet and ultimately it earns the name BAD BANK. It is like a clean white blotting paper absorbing all the overflowing ink and gets stained totally. The comparison ends here. The blotting paper cannot be resurrected. But, if the Bad Bank is managed efficiently, it can offload all the assets and even make profit. Time will tell us the efficacy of the experiment. Broadly speaking, banks would

: be able to focus on lending instead of loan recovery
: have availability of free capital for more efficient use. Additional provision for transferred bad loans would not be required
: see an improved credit rating
: Investors, depositors and borrowers shall be comfortable to engage with profitable bank. The "feel good" factor is very important for an organization to prosper

Bad Banks came into prominence during the global financial crisis of 2007-09. Citi group moved loans worth $ 900 billion to its bad bank unit Citi Holdings. Barclays and Bank of America also used this route. The Republic of Ireland formed a Bad Bank to come out of the financial mess. Post Asian Crisis, the Malaysian experience with its stressed management AMC "Danaharta " is a positive indicator for us. India did not have a very successful experiment with Stressed Asset Stabilization Fund {SASF} which handled the stressed assets of IDBI. Lessons learnt, that time, are to be kept in mind, while creating a Bad Bank. Bad Banks worked in some countries with active government support. The difference is that they did not have ARCs like structure functioning in India for the last 2 decades

The Bad Bank idea was floated in the Economic Survey 2017 for the first time. It mentioned the need for creation of Public Sector Asset Rehabilitation Agency to solve the twin balance sheet problem of over leveraged companies and bad loans encumbered banks.

If there is one proposal in the Budget that could truly have a transformative effect on Indian Banking sector, it is the setting up of a Bad Bank. The Union Budget 2021-22 has proposed setting up of a Bad Bank under the ARC (Asset Reconstruction Company) - AMC (Asset management Company) model to acquire, manage and turnaround the bad loans by selling to AIFs (Alternative Investment Funds) and others. The ARCs will acquire bad loans at a negotiated price (at a discount from the book value). In turn, banks get cash and Security Receipts, normally 15% cash and remaining in the form of Security Receipts. The structure of Bad Bank and the transfer pricing mechanism are being worked out. It is too early to discuss on these points.

In the latest Financial Stability Report, RBI has stated that the gross Non-Performing Assets of the banking sector could rise from 8.5% at the end of March 2020 to as much as 13.5 % by September 2021. The problem is not managing outstanding NPAs alone. Policy holders are worried about fresh NPAs accretion The Indian economy slipped into technical recession, contracting during the first two quarters of this fiscal year. The pandemic led lockdown imposed to curb covid infections has reduced the earnings of businesses and individuals, impairing their earning capacity to repay loans and leading to a probable jump in non-performing assets of banks. Despite regulatory forbearance in the form of loan moratorium, many borrowers may find it difficult to service their loans, requiring the lenders to set aside capital to cover those losses. In addition, RBI's stress test on 200 large NBFCs indicate that their Gross NPAs may rise to 8.4%. All put together the Gross NPAS may touch 13.7% to 14.8 % 0f GDP by September 2021.

Rating agency CARE ratings said given that bank credit growth would be higher in FY 22 than in FY21 , incremental credit would be Rs 10-11 trillion. And with a share of 60-65% in banking, PSBs can see a growth of credit to the extent of Rs. 7 trillion. The need for capital from government through recap bonds or direct allocation can be Rs.35-40000 crores. The financial strength of banks has been affected and further credit growth can be taken up with additional capital coming in. Setting up a Bad Bank to acquire stressed assets of banks, especially of PSBs is the need of the hour to free the banks from the baggage of stressed assets to focus on future credit growth and build capacity to absorb future slippages. High NPAS have made banks risk averse and eroded their capacity to lend to spur economic recovery from the shock of Covid 19

One should remember that while NPAs can be transferred from the banks to the Bad Bank, the overall quality of the loan portfolio of the country does not really change. It also means that there is a write down of the asset which is still a loss for the system.

RBI recent data show that average recovery rate of NPAs through IBC, ARCs, DRTs and SARFESI is 23.2 % This rate has improved due to the IBC that has a recovery rate of 45 %. The performance of others is lower ie between 4 and 27 %.There is little reason to to expect that the Bad bank shall do better. Instead of solving the problem, we are merely transferring it to another entity. In turn, banks' balance sheets look better and they will be in a position to raise capital. Shifting issues from one balance sheet to another or rolling over the problem may not be a correct solution for turning around stressed assets.

Uday Kotak, MD & CEO, Kotak Mahindra bank and President CII, said in a meeting that the Centre should consider floating multiple such outfits in the form of Alternate Investment Funds (AIFs) instead one single Bad Bank .RBI Governor said in a meeting that the new ARC will not jeopardize the activities of existing ARCs. This statement was vey reassuring to their frayed tempers of the ARCs operating in the country. Amid confusing reports about the control of the proposed Bad Bank ,Bank of America Securities are of the opinion that a fully government funded ARC will not only be faster to set up but may also be more capital efficient.

Formation of a Bad Bank will help in faster debt aggregation. Gates are open for transfer of bad assets. But the exit is difficult with the existing resolution frame work as the recovery rate is not encouraging.

To strengthen /enhance the appetite of investor/buyer

The infrastructure around IBC/DRT are to be strengthened.

The price discovery is very important. While ARC buys it, the AMC has to arrange for a a buyer at a price commercially viable. The transfer of stressed assets from the lender to the Bad Bank has to be at a reasonably right price. If the assets are sold at a too low price the buyers may get above normal profits on recovery. If the price is too high, the buyer will end up having more stress. Bad bank as a concept will work efficiently when the domestic market is very deep and good number of market participants are available to enable price discovery. The proposed bad bank has to be better than both the IBC and ARC, in terms of pricing and also faster recovery.

There are challenges for the Government with respect to Bad Bank. There is no room for using tax payers' money for setting up the bank. The capital has to come from private funds. There are global distressed funds and also private equity players.

The management of bad bank has to be with professionals. It should not be a resting place for bankers on deputation or retirees. There has to be eminent members on the board who are expected to bring their expertise.

Chief Economic Advisor of the Government stated that Bad bank can only be used as a onetime tool to clean up banks' balance sheet saddled with bad loans. He further said that using it as a recurring model could lead to wrong incentives for bankers to undertake risky lending. Government funded bad bank should not lead to reckless lending and the bank should have a limited shelf life. He also made a strong case for setting up the Bad Bank led by private investors. It should not be throwing good money after bad. This is a great initiative of Government of India. It is to be ensured that the structure is optimally designed which supports the eco system. The goal is value maximization.

BANKING

THE URGENT NEED FOR ACTIVITY BASED COST MANAGEMENT (ABCM) FOR BANKS

Shri Madhav Kshirsagar
Consultant

Now more than ever before (during and the post-Covid times) Bankers need to wake up and understand the true costs of their daily transactions and deploying valuable resources.

Heed these well established and logical one liner adages.

Cost is a fact, so do quantify costs and cost pools as accurately as you can with ownership and active participation.

It is information with no emotion.

An Opinion is information based on experience (right or wrong, and more often than not, biased).

Opinions not based on quantified and owned up facts but only on experience are strategically dangerous.

An Estimate is an opinion

Price is a policy

Predatory pricing for market share is well known for those with holding power.

Ignorance is opinion lacking information.

Lastly Stupidity and Incorrigibility are Opinions that ignore facts (a sure recipe for disaster).

Now you know Facts (Owned up Activity costs for all departments) are Mission Critical.

It is imperative to get these tabulated and coded as value adding and non-value adding and then migrate resources from the parasitic activities to the performing ones.

There is no time for complacency or nostalgia anymore in the post covid new normal and the agile and responsive leaderships will be the only ones left standing.

One has to also respect the corridor gossip and what employees feel is motivating for them so that people's time along with other resources get deployed in a more productive and gainful manner.

<u>This change of routines and sensitivity along with an open review of the value based quantified activity cost pools for all departments is actually the way forward.</u>

Only redeployment of time, expenses, assets, intent and effort is the way forward for continuous improvement and better productivity and profitability.

<u>This is the case for ABCM for Banks.</u>

ABCM is a well delegated and "departmental head (HOD) driven initiative" that guarantees sustained continuous improvements and fair performance appraisals of people, products, sectors geography and other strategic cost objects and intent.

Needless to add, it empowers HODs and eliminates a lot of avoidable discussions later and blaming others.

The bottle neck and resistance to change is also more than often at the top.
(Has anyone seen a bottle with the bottle neck at the bottom!).

Listen to the quantified voice of the markets, people and cost pools and act and restructure with tact wherever possible. This will eliminate all waste and non-value added (pretending to be busy overheads) and you have a deal.

What you cannot cure, endure. Let it be.

ABCM is the healthy start that promises this and leads to Zero based Activity Based Budgets (ABB) and Activity Based Costing (ABC) as well eventually.

Some hard truth and revisiting fundamentals now.

<u>Allocation of costs and cost pools is when you know where the cost needs to be put and cost apportionment leans on owned up and sensible cost drivers and the best judgements of HODs. Trust train and involve them!</u>

For instance, the Finance, Accounts and Tax dept in a corporate we did an ABCM review for had an equal allocation to three equal turnover SBUs in different geographies earlier. So, 33, 33 and 34 was lifestyle and dogma for charging out these central functions to SBUs.
After the ABCM exercise the allocation changed to 70, 27 and 3 instead of the previous 33,33 and 34.

There were eleven such support functions so you can imagine how horrible the final SBU profitability was gambled and tampered with.

No wonder they had a serious employee retention problem! Worse still imagine the havoc for understanding and acting upon sector, product, services and Geographic profitability for strategy.

Archaic drivers like sales expenses are proportional to sales and Support functions like Finance, MDs office are proportional to turnover need to be cast away and left to better owned up by modern and participative allocating and apportioning techniques.

There is enough wisdom with most HODs to understand the causal relationships (not casual) for most major cost allocations so with a bit of help, consultation and transaction data base, 90% accuracy is good enough for sensible restructuring and enhancing or eliminating wasteful cost pools to motivate all concerned internal and external customers.

Broadly resources would constitute cost of funds, staff costs, overheads and infrastructure costs.

Cost of funds would by and large be allocated to products and service-related activities and processes.

Staff costs would need to be taken to Products and Service-related processes/Activities, Customer related activities and Business sustaining processes/activities.

Overheads and Infrastructure costs too need the same allocation and apportionment mechanism for all the four product, service, customer and business supporting processes.

The complications always arise due to the non-acceptance and lack of ownership of the four kinds of costs issues by all HODs.

So the best way to deal with this problem is the participation method by involving all HODs themselves in this comprehensive exercise with a prod and nudge by a trained CMA.

Other than utilizing the precious existing comprehension and competence of the HODs , accuracy and cost ownership are captured for all major items of expenses and converted to Activity and process costs across all departments in the bank. (The Non-Ivory tower approach).

In our experience with most clients, after this has been done broadly it takes only two days per department to establish well owned up activity cost pools for all departments.
The advantage of activity cost pools for all departments is that all cost pools have a well-defined denominator or logic which is transaction based or based on a driver acceptable to all/most concerned. HODs contribute immensely in this phase.

These cost pools can then taken to strategic cost objects like Products, Services, Sectors, Geographies. This takes another two days per department.

Even with 90% accuracy all concerned will now get an idea of transaction costs for all departments so outsourcing or activity elimination or consolidation becomes objective and easy.

Product costs, Service costs, Sector costs and geography costs then follow to help intensify /migrate resource allocation to more profitable/mission critical segments while taking them away from parasitic non performing areas.
Resources can be the objectively and participatively reassigned more gainfully and in a more motivating and owned up manner.

Now post an ABCM exercise, we have a motivating situation where we do realize broadly which product service, sector or geography is worthwhile while getting a "better than before handle" on profitability and organizational slack or "Muda" as the Japanese address any avoidable noise or waste.

Every HOD can also quantify his MUDA, or baggage (inherited or otherwise) be it personnel or overheads or infrastructural costs.

A quantified document by the HOD is actionable and better than ill-founded estimates and opinions even if they are from higher up.

Mind you the waste is not only the loss of resource deployed but invariably also the lost opportunity the bank loses to competition.

Time and resource deployment are the only optimizing agenda of all top managements.

Let a well discussed ABCM tabulation short presentation with suggested restructuring of resources by all the HODs be your best friend.

It actually is quite indicative of what needs to be done right away and no lengthy meetings are required.

Further inputs from Marketing and seniors is required for then honing strategy sensible in manageable and a motivating manner.

One of the biggest demotivators in any organization is performing depts, sectors, personnel, products and services and geographies subsidizing the non performing ones. Letters of credit activity subsidizing Bank guarantees, Performing Branches, Products, Clients and Geographies are always subsidizing non performing ones,

Performance appraisals for people, products, sectors etc. is a non-quantified and subjective issue and employee retention as well as product and service sustainability are unfair and also a serious issue.

You will bumble forward or perish sooner than you know it.

Areas of decision making requiring quantification assists and cost benefit analysis are often like product and services phasing out or enhancing, up selling and third party selling, alternate delivery channels, focus or defocus on ancillary products like lockers and Safe custody, Forex, Improvement of spread or Net Interest Margin (NIM) determination of other rates like NREs, Shipments and posts, Derivatives and Insurance selling, ATM variants, CDMs, Internet Banking, Mobile banking, Call centers Monitoring and comparison of deliverables for Branches, Cost of acquiring customers as well as the cost of retaining them, Maintaining dead accounts, NPA management and Agencies, Restructuring and Reconstructing NPAs, Sale of NPAs, Write off decision making, Inter branch performance measures and comparisons for sectoral and product wise performance, Efficiencies of Back

end support and IT systems, Extent of MIS reports generated, Lengthy meetings with poor conclusions, Integrity in the loan mechanisms, Allocation of central overheads and costs to various frontline customer facing departments to establish composite transaction costs,

Revision of Key result areas (KRAs) and Key performance indicators (KPIs) have to suit not only survival but thriving.

Job descriptions have to change every year at the very least!

These are archived for decades!!

The possible pretext and the pretense of present manpower and assets being busy at all levels needs to change.

Peoples individual strategies too need alignment to the Bank Image, mission statement and shared strategy.

The strategy sharing with HODs at least is a nice sounding agenda and is rarely done and delegated, so it gets pretty lonely at the top strata where Strategy implementation requires an owned up Balanced score card or basic monitoring!

Without proper allocations as well as apportionments of costs done at ground and HOD level and cost tabulations for all departments one can never separate the men from the boys or Parasites from Performers whether we are in the performance review of personnel, product, sector, segment strategic review space.

All that the CMA and HOD task forces require is a decent cost center wise expense statement duly discussed with the Cost Trial balance folks in finance and broadly owned up by the HODs.

The CMA is a classic coordinator who can take an impersonal view when it calls for. Owned up activity costs for all departments and is the first single step that has to be done.

How can all this ever be ignored for probable hunches, guestimates and individual ivory tower like judgements!

CMAs can orient departmental heads to cost accounting basics, allocating and apportionment techniques and play a very vital role for improving the accuracy of all departmental cost pools (Activity Costs).

Granted that the bank HODs have a better handle on the professional comprehension of the daily grind, activities and people's motivation KRAs and roles, but this tabulation of the departmental cost of activities with the separation of baggage and unabsorbable costs (waste) has to be done and dealt with.

All costs are not product or service costs so the earlier they are quantified and acted upon.

This is where the HOD and CMA combination is superb and can contribute for management of costs without penalizing internal or external customers.

That will ensure the Bank / institution is competitive since the slack is not passed on to product or service costs.

The increased throughput or volumes then reduces the slack in a win win situation for the bank with better capacity utilization.

Capacity utilization of existing resources is an important profit lever when the selling and competition gets tough. It is not the salesman or marketing that always make a profit. Hence the need to quantify slack at department level and get rid of it.

Fund raising activities, Product Line support costs, Automobile loans, Housing loans, Various Lending avenue costs, Exhibition and Business promotion costs, Customer relationship Management Costs and many such cost objects can never have a fair assessment or selling price unless costs for them based on all the departmental activities are allocated to them in a primary or secondary allocation.

The cost of a single payment involves perhaps five departments for the validation, sanction, processing, teller, dispatch etc. to know what to charge the customers.

Typical Strategy Related Cost Objects not quantified in routine

Cost to deal with Dealers
Cost to deal with Geography /Region
Cost to deal with Sector
Cost to deal with an Application
Customer lifecycle event
Channel –Over 50% OH are spend on managing the channels/franchisee
Product Group like Participatory, non-Participatory, Unit Linked, Pension Etc
Cost of acquiring and retaining customers.

This type segregation of costs across various dimensions and the combination can help the organization in not only pricing of the product but also the improvement of the processes, improvement of the channel performance and help exit sectors geographies etc.

ABCM - workshops discussions and corridor gossip (that need top Management strategic attention)

Costs cannot be ascertained to the products

- 'It looks as if our overheads are growing faster than our business … wonder why'
- 'It is time we looked at streamlining our cost structure'
- 'What are our real indirect costs and transfer costs?'
- 'Are the present Foreign Travel and Communication costs linked correctly to the products?'
- Too much of cross subsidising of performance for people, products and sectors.

No Consensus on and ownership of the costs

- 'Why should my department bear this cost when we have not incurred it ?'
- 'I don't accept the sales-based allocation for my dept.'
- 'I did not want this seminar.'
- 'Why should my product be loaded with so much of service costs?'
- 'What is 'Corporate' doing for my product?'

No Analysis of Activities- its costs and deliverables

- 'Our routine for the last five years is almost the same. I wonder who needs us…… We are hardly consulted.'
- 'I could easily be an independent profit centre' - Testing, R&D, Utilities Services
- 'What fraction of the meetings are conclusive and what is the cost of internal co-ordination?'
- 'It is time we looked at our Business Processes and the cost of those processes – Cost of making a payment, Order Processing, MIS reports etc.'

No Alignment of Strategic issues to the Deliverables of the business processes - *Management*

- 'What is our Business Strategy? Cost Leader or Differentiator or Focused Customer'
- 'Is our strategy known to all the stakeholders?'
- 'Are our Business Processes formally plotted with all the activities quantified?'
- 'Are our Business Processes aligned to the strategic objective?'

No Realistic Profitability of Product, Customer Channel and Geographic Segments - *Sales*

- 'I am not sure of which customers / products / channels / regions /sectors make us money "'Are our Best Customers buying our Best Products?'
- 'Should this product be taken off from a region or countywide?'
- 'Should we have a Regional Office here?'
- 'Are we working for ourselves or our channel partners?'

No Alignment of Strategic measures to the measures of operational activities- *All Operations*

- What are my non-financial 'Key Result Areas'?
- How do we measure 'Customer Satisfaction'?
- How is my performance going to be judged?
- Can performance and progress be monitored without lengthy meetings? Online Update?
- Is there any clear link between Rewards and Performance?

Symptoms For ABCM Analysis

- Declining profitability for no obvious reason.
- Winning sales in products that the company is least well configured for, and vice versa.
- Growth in support costs relative to direct costs.
- Managers having little faith in existing product costing system.
- Obsolete archaic allocation mechanisms
- Constant need for special studies.

Current System may not

- Identify the true total product cost because of unnecessary allocation and complexity
- Provide cost and performance information to support strategic goals.
- Measure or reward desired performance.
- Focus on elimination of Cost and prevention of non-value-added activity costs.

More corridor Gossip stressing need of ABCM for the Bank/Company

Costs cannot be ascertained to the products due the lack of cost centre and cost objects in accounting.

- 'It looks as if our overheads are growing faster than our business … wonder why'
- 'It is time we looked at streamlining our cost structure'
- 'What are our real indirect costs and transfer costs?'

- 'Are the present Foreign Travel and Communication costs linked correctly to the products?'.
- This luxury of passing on all costs to customers is going to kill us one day.

No Consensus on and ownership of the costs

- 'Why should my department bear this cost when we have not incurred it ?'
- 'I don't accept the sales-based allocation for my dept.'
- 'I did not want this seminar.'
- 'Why should my product be loaded with so much of service costs?'
- 'What is 'Corporate' doing for my product?'
- Sales is running after cheap and easy orders.

No Analysis of Activities- its costs and deliverables

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- 'I could easily be an independent profit centre' - Testing, R&D,
- 'What fraction of the meetings are conclusive and what is the cost of internal co-ordination?'
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What Value we Add with an ABCM Assignment

- A significant/improved focus on customer centric activities and value-added focus for all activities and depts.
- Elimination of non-value-added quantified agenda for all personnel and departments.
- Serious multiple caps for people, fully owned up additional KRAs and eliminating the demotivating cross subsidies that exist.
- More motivating performance management reviews for people and products.
- Numerical Evolution of personnel to discuss and talk in quantified terms rather than being vague.

- Significant Cross functional, well-knit working teams and wiping out the Silo approach of stubborn archaic working methods.
- Quantified approach to daily life and ensuring people are specific and to the point in all discussions and behaviour.
- Understanding the unabsorbed costs of the organization which are not Product/Service costs and are actually the quantified Slack/Noise.
- Interplant comparisons for performance reviews and Benchmarking
- Improved Throughput, Profitability and Employee Motivation.

A ninety percent accuracy is good enough for smart and quantified objective decision making and restructuring resources while listening to the voice of the people.

The Activity Based Cost Management technique (ABCM) leads to visible motivation and is also quantifiable which leads to a feeling of being wanted in the work place.

Implementation of ABCM is the need of the hour.

BUSINESS INNOVATION

P2P LENDING IN INDIA

Shri Sudhakar Kulkarni
Certified Financial Planner

P2P is the fintech platform available to both lenders and borrowers to park their surpluses and borrow the money hassle free respectively. In current falling interest rate era investors are searching for suitable options to have higher return, since traditional instruments such as bank FD, postal certificates, PPF, Bonds, Debentures and other such options offer returns in range of 6% to 7%, in P2P lender (investor) can get return in the range of 12% to 18% from his investment depending upon the selection of borrower (on the basis of credit risk). The concept is quite new in India however it stated in UK in the year 2005 and now P2P lending is in 50 countries in across the globe. In India it started since early 2018.

P2P functions as an online platform which facilitates the matching lenders and borrowers offering ease of access, where Lender can earn interest higher than traditional debt options while the borrowers can obtain funds at an interest rate lower than banks or equal bank interest in shortest possible time that too hassle free. In short, the P2P platform coordinates the transactions between lender and the borrower.

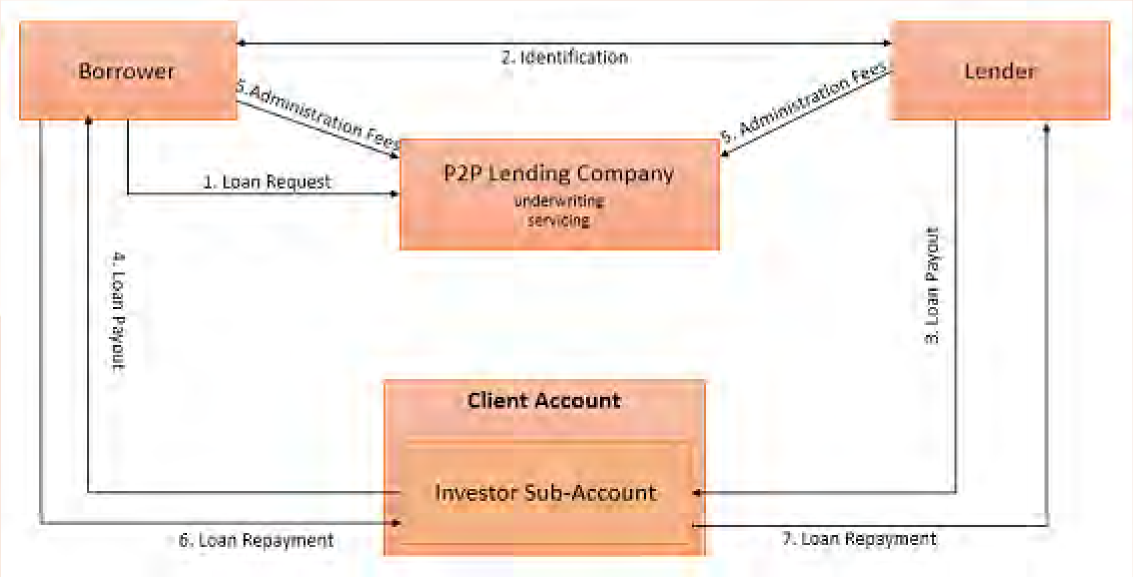
Growth drivers of P2P lending are Digital Screens, Block Chain, Internet Penetration & Young population.

How does P2P lending works?

More commonly referred to as “loan-based crowdfunding”, Peer-to-Peer lending is:

1. Interaction between two parties without the need for an intermediary who virtually meet and interact on a common network;
2. For loans/ financial assistance of unsecured nature.
3. P2P from a financial perspective, is facilitation of lending money to unrelated individuals, or "peers” without going through banks or other traditional financial institutions;
4. Lending takes place online on peer-to-peer lending platforms;
5. Operationally less cumbersome;

6. Easy registration and less cumbersome evaluation and documentation process along with faster loan processing time. The following figure represents the transaction flow in a typical P2



RBI has made a regulatory frame work in October 2017 to regulate the activities on the platform to safe guard the interests of lender as well as borrowers accordingly the regulations are as under.

- Any person including an individual, a body of individuals, a HUF, a firm, a society or any artificial body, a company can participate in the P2P lending platform.
- Only an NBFC can register as a P2P lender with the permission of RBI. Every P2P lender should obtain a certificate of registration from the RBI. Every existing and non-banking NBFC-P2P should register with the Department of Non-Banking Regulation, Mumbai. The company which is incorporated India, and have necessary technological, entrepreneurial and managerial resources to offer P2P lending services to the participants can only register as NBFC-P2P
- Further, the P2P should have a net owned fund of at least 20 million and meet other conditions laid down by RBI.
- The company is granted a Certificate of registration (CoR) to serve in public interest.
- Any other condition as may be mentioned by the RBI for the purpose of for the purpose of commencement of the business or for carrying on the business in India.

Dos and Don'ts for P2P lending Platform

- A P2P lender can act only as an intermediary providing an online marketplace or platform to lenders and borrowers.
- A P2P Company shall not raise deposits under Section 45I(bb) of the RBI Act, 1934 or the Companies Act, 2013.
- A P2P lender cannot lend on its own, cannot provide or arrange any credit enhancement or a credit guarantee.
- A P2P lender cannot lend on its own, cannot allow an international flow of funds or cross-sell any item except for loan-specific insurance products.
- A P2P lender should ensure that both lender & borrower should adhere to the legal requirements as applicable.

- Process all data concerning its activities and participants and maintain storage of the data on hardware located within India.
- P2P lender should have an approved policy setting the eligibility criteria for both lender & borrower& also for the pricing of P2P services. Lender needs to approve the borrower knowing well that the loan is of unsecured nature.
- P2P lender needs to disclose the criteria for selection of borrower and loan assessment process, in addition name & contact details of company person for grievance redressal on website.
- P2P lender should do the due diligence of both lenders as well as borrowers. Disclose the details of borrowers to the lender and give idea about the associated risk with the lending.
- Disbursement, repayment & recovery is to be monitored by P2P lender.
- Funds parked by the lender are to be routed through Escrow account with the bank approved which is operated by bank approved trustees.
- Another escrow account is to be used for the collection from borrowers and no transaction is to be done in cash.

Lending & Borrowing Limits:

- Earlier limit of Rs.10 lakh per lender has now been raised to Rs.50 lakh from December 2019 accordingly lender can lend up to Rs.50 lakh in aggregate across all the P2P lenders. However maximum lending per borrower should not exceed Rs.50000 and the minimum lending to one borrower can be as small as Rs.500.
- Borrower can borrow maximum up to Rs.10 lakh in aggregate across all the P2P platforms and more than Rs.50000 from single lender.
- The maximum tenure of this loan is up to 3 years.

The P2P is responsible for the recovery of the loans disbursed through their platform. However, to minimise the default P2P should have best possible screening of the applicants. However, the P2P lending platform should adhere recovery norms prescribed by RBI and the lending platform is responsible for the actions of its recovery agents., including recovery agents. The P2P should also maintain the confidentiality of information pertaining to its participants that is available with its service providers.

Things one should know before joining for P2P lending for higher returns**:**

- First and the for most thing that P2P lending is unsecured loan that is why the returns will be high.
- You are lending to unknown people.
- Don't be greedy, start with small amount.
- Return depends upon borrower profile and tenure of the loan.
- One should lend small amount with each borrower with different tenures.
- If the returns are good then just withdraw interest and reinvest principle to rotate the funds.
- Compare different platforms and invest accordingly in different platforms instead investing only on one platform.
- Check the default rate of the platform.

Advantages to the lender on P2P platform:

- High returns on investment.
- Month -to-month income generation

- Supported by technology & credit experts to avert the risk
- Likely stable returns insulated from stock market volatility.
- Diversification reduces the risk
- Every is online.
- Passive income
- Most of the borrowers are salaried people having monthly income of 35 to 50 thousand and loan ticket size is between 50000 to 5lakh hence no big amount of loan default.

Disadvantages to lender on P2P platform

- It is new concept still to mature
- Default risk is always there.
- Loans are without any security
- Return is in the form of interest and taxable.

Things one should know before joining for P2P lending as borrower

- The P2P lender will assign you to one of four or five risk categories, and you can borrow at the going rate for your risk category on that particular day.
- You can have your loan auctioned to members with funds to lend. The lender sees the pertinent information you've provided on the P2P lender's site: the reason(s) you need the money, your financial history, your personal story, even something more personal, like a photo or a poem you wrote. You set an initial interest rate for your loan and accept bids; if the loan is fully funded, lenders can bid down the interest rate they are willing to charge to win the right to fund your venture.

Advantages & Disadvantages for borrowers availing loan on P2P lending platforms:

- Online application for P2P loan is fast and convenient.
- You may be able to access loan at lower rate.
- Getting an initial quote will not affect your credit score.
- Though loans are from individuals you need to deal only with P2P platform.
- P2P loans are unsecured and can be more flexible than traditional loans from banks or NBFCs.
- Provides another option for taking loan than taking it from banks and NBCs.
- Process time is quite short.

However, it has got certain disadvantages too:

- You need to pass certain credit checks and other internal checks for approval of the loan
- You need to pay an application fee.
- Recovery may be quite stringent.

With the push of Modi Government for digitalization and technological awareness, P2P lending business has tremendous potential since needy borrowers are getting funds speedily and the process is online and simple will attract more people both lenders & borrowers towards these platforms. The growing number of Small & Medium-sized enterprises (SMEs) and Micro, Small & Medium sized enterprises (MSMEs) in India, and reluctance of banks for extending the credit to the customers with low credit score and poor financial status, will be driving force for the growth of P2P lending. Further government's priority towards Digitisation (Aadhaar, eKYC, Start-up India) and current falling interest rates on other debt options of investment an environment is conducive for the growth of P2P lending platforms. The major players in P2P business are showing growth in the range 25-30% and are making all out efforts to take advantage of this conducive situation. This seems as an opportunity to number of venture capital and angel investors to investments in companies acting as P2P lending platform. Banks and NBFCs are also ready to collaborate with these platforms.

One can earn minimum double digit to high double digit returns on deployments through this platform. Banking sector NPA data shows that the segment with the highest level of NPAs is large corporate borrowers (approximately 70% of total bank NPAs) and the lowest level of NPAs are from retail (approximately 5% of the total). As such though these are unsecured loans due to diversification the default risk gets minimised. However, one has to understand that that you are doing an unsecured lending transaction, which is what is leading to the higher returns.so far NPA % is in the range of 1 to 2% only.

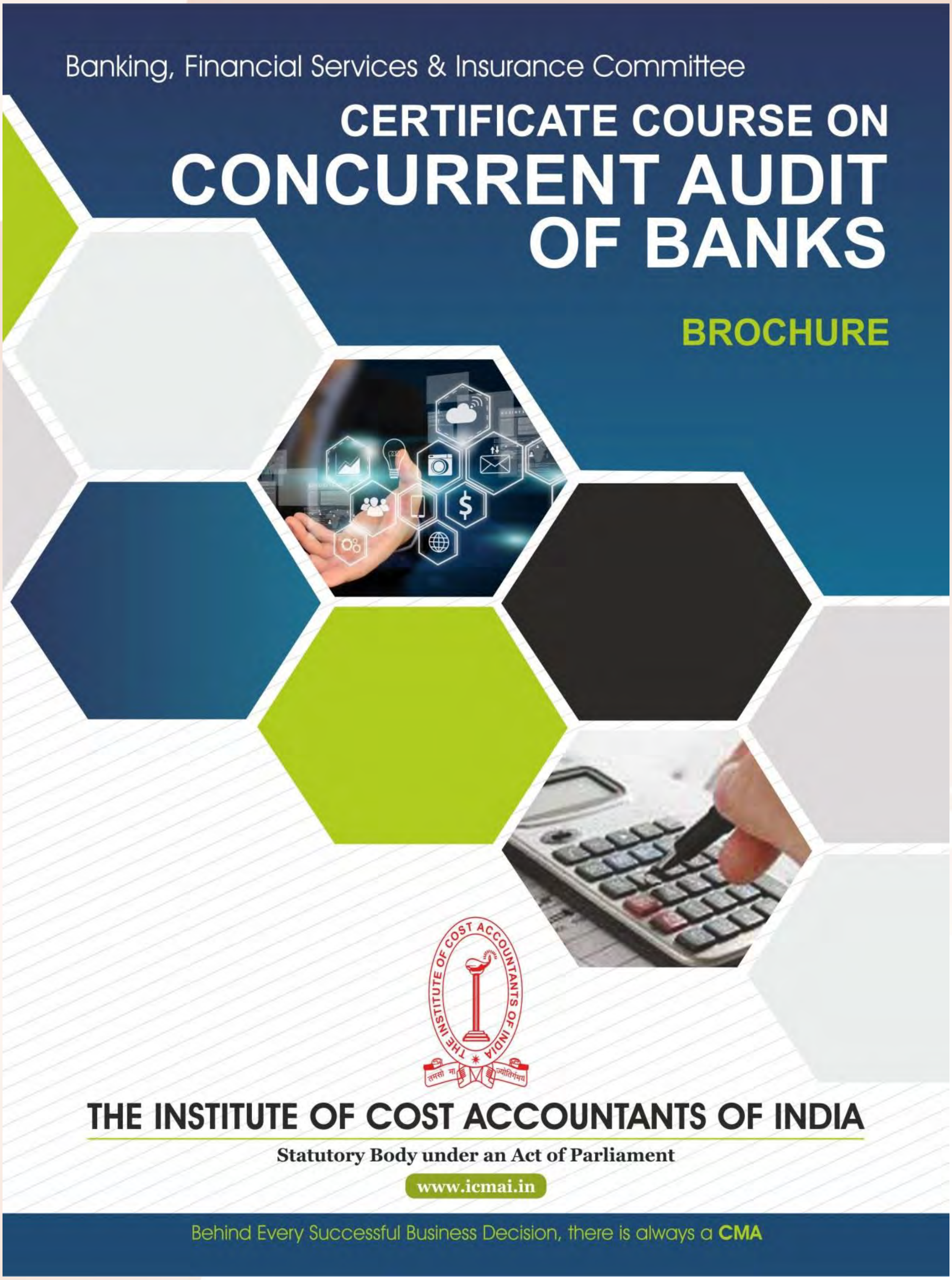
Some of the leading P2P lending companies in India are Faircent, Finzy, Monexo, 121Lending & Lend Box.

Finally, I would like to say one can compare the working, business strategy, default %, NPA%, risk categorisation, risk mitigation methods and then invest as suitable to risk appetite. But one should explore this option to get better return in prevailing falling interest era.

(Ref: http://vinodkothari.com/wp-content/uploads/2020/01/India-P2P-report-2019-2020-1.pdf)

Courses Launched by the BFSI Department

Certificate Course on Concurrent Audit of Banks (Admission for 3rd Batch is going on)



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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 110 Chapters situated in India, 11 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.

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

Courses Launched by the BFSI Department

Certificate Course on Concurrent Audit of Banks (Admission for 3rd 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 3rd 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

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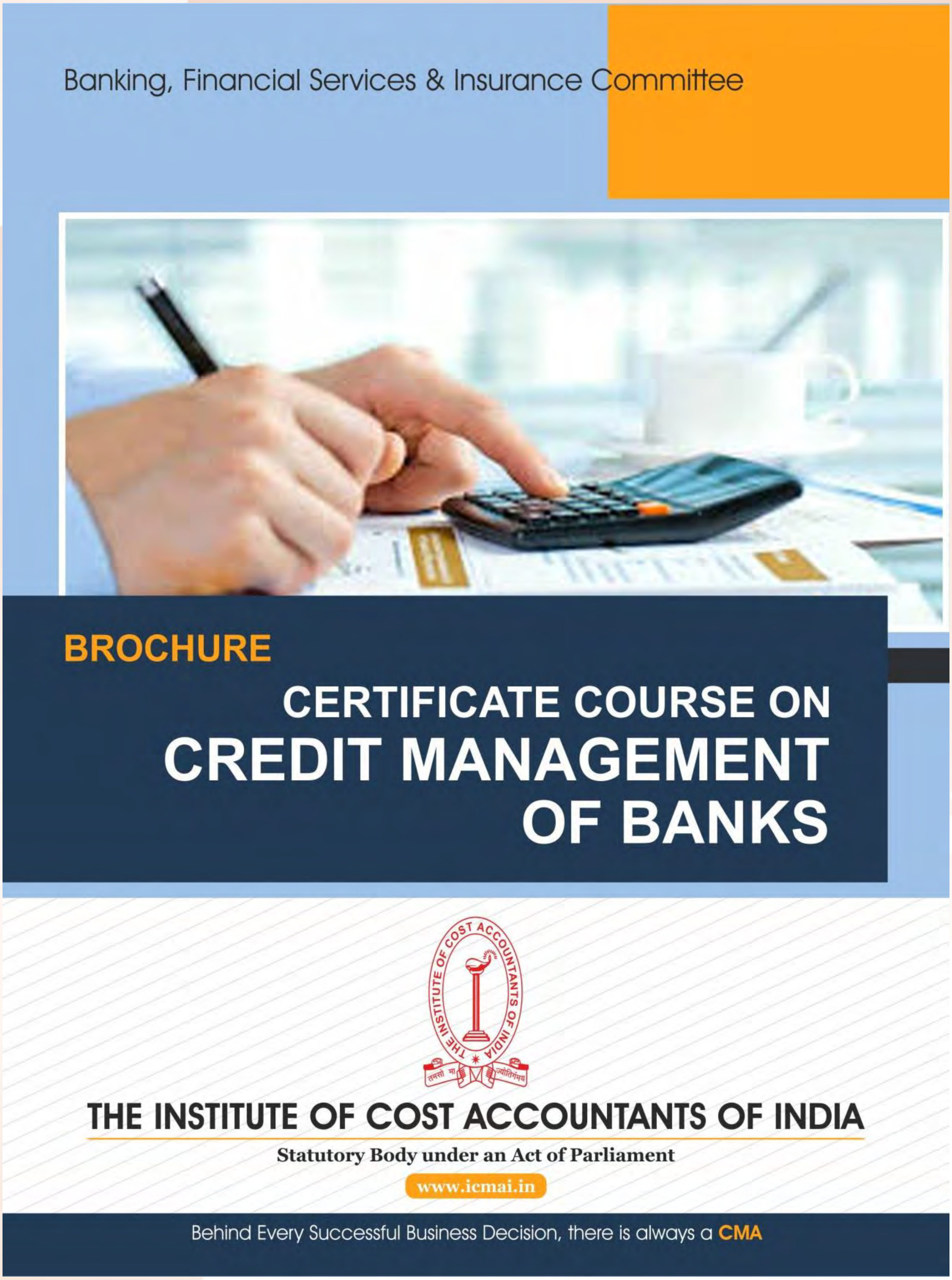

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Course Objective

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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Course Duration

a) Classroom Learning of 3 hours per day in the Weekend through online mode
b) 50 Hours on-line Coaching.
c) 2 months course
d) Online Examination for 100 marks

Course Fees

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Special Discount for Corporates
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Examination

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Courses Launched by the BFSI Department

Certificate Course on Credit Management of Banks (Admission for 3rd Batch is going on)

Detailed Course Content

- ✓ **Introduction & Overview of Credit (Module 1)**
  - o Principles of Lending: Safety, Liquidity, Profitability, Purpose of Loan, Diversification Risk. Credit
  - o Policy: Importance, Contents, Exposure Norms
  - o Types of Borrowers: Individuals, Proprietorship Firms, Partnership Firms, Private & Pubic Limited Companies, Limited Liability Partnerships (LLP).
  - o Types of Credit Facilities: Various Types of Credit Facilities - Cash Credit, Overdrafts, Demand Loan, Term Loans, Bills Discounting
  - o Credit Delivery: Sole Banking Arrangement, Multiple Banking Arrangement, Consortium Lending, Syndication
  - o 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
  - o 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)**
  - o 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
  - o Analysis of Profit & Loss Account, Auditor's Note
  - o 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
  - o 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)**
  - o 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
  - o 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
  - o 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)**
  - o 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)**
  - o 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.

Courses Launched by the BFSI Department

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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

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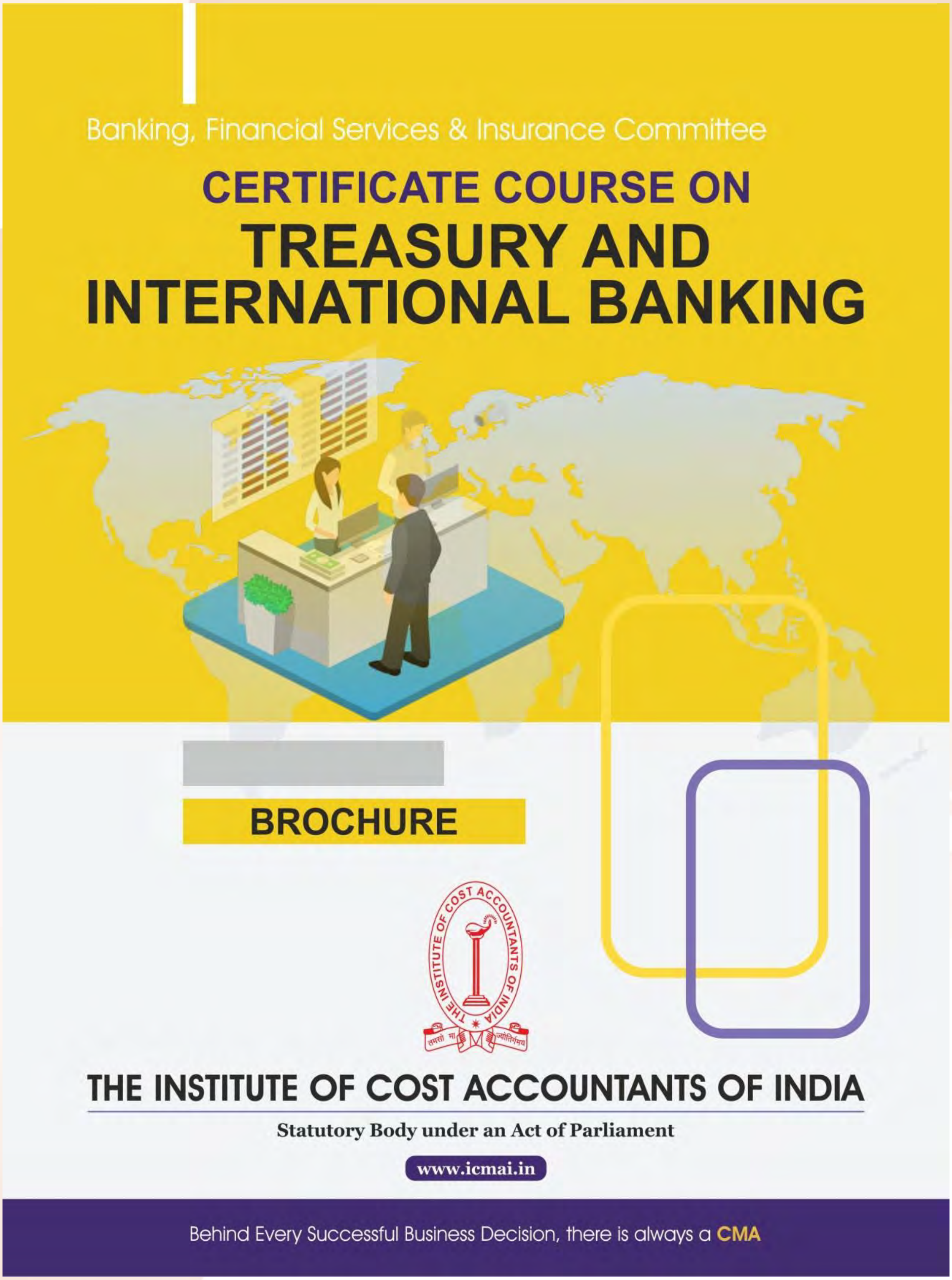

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Course Objectives

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.

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

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

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Courses Launched by the BFSI Department

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Certificate Course on Treasury and International Banking

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

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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

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Certificate Course in Investment Management (Admission for 4th Batch is going on)

Courses Launched by the BFSI Department

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Certificate Course in Investment Management

NISM NATIONAL INSTITUTE OF SECURITIES MARKETS An Educational Initiative of SEBI

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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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Courses Launched by the BFSI Department

Certificate Course in Investment Management (Admission for 4th Batch is going on)

Certificate Course in Investment Management

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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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Certificate Course in Investment Management

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.

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

Courses Launched by the BFSI Department

Certificate Course in Investment Management (Admission for 4th Batch is going on)

Certificate Course in Investment Management

NISM NATIONAL INSTITUTE OF SECURITIES MARKETS

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.

Behind Every Successful Business Decision, there is always a CMA 5

Courses Launched by the BFSI Department

Certificate Course in Investment Management (Admission for 4th Batch is going on)

Certificate Course in Investment Management

NISM NATIONAL INSTITUTE OF SECURITIES MARKETS An Educational Initiative of SEBI

- 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

Certificate Course in Investment Management (Admission for 4th Batch is going on)

NISM NATIONAL INSTITUTE OF SECURITIES MARKETS An Educational Initiative of SEBI

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 4th 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 14 more webinars since it was last reported in the BFSI Chronicle published in December 2020 on various topics in the fields of Banking, Financial Services, Insurance, Treasury, Cyber security, Cloud Computing and others.

Sl. No.	Date and Time	Topic	Speaker
1.	28th November 10am-12pm	FEMA 1999, Hedging Forex Risk and Trade Finance (Series 1)	CMA Nijai Gupta,Forex Expert
2.	5th December 10am-12pm	FEMA 1999, Hedging Forex Risk and Trade Finance (Series 2)	CMA Nijai Gupta,Forex Expert
3.	12th December 10am-12pm	FEMA 1999, Hedging Forex Risk and Trade Finance (Series 3)	CMA Nijai Gupta,Forex Expert
4.	19th December 10am-12pm	FEMA 1999, Hedging Forex Risk and Trade Finance (Series 4)	CMA Nijai Gupta,Forex Expert
5.	26th December 10am-12pm	Incoterms-2020, Terms of Payments, LC & UCP 600 (Series 1)	CMA Nijai Gupta,Forex Expert
6.	2nd January,21 10am-12pm	Incoterms-2020, Terms of Payments, LC & UCP 600 (Series 2)	CMA Nijai Gupta,Forex Expert
7.	9th January,21 10am-12pm	Incoterms-2020, Terms of Payments, LC & UCP 600 (Series 3)	CMA Nijai Gupta,Forex Expert
8.	16th January,21 10am-12pm	Incoterms-2020, Terms of Payments, LC & UCP 600 (Series 3)	CMA Nijai Gupta,Forex Expert
9.	23rd January, 21 10am-12pm	Financial Planning in the current economic environment	CMA Soumit Das, Chief Mentor - Financial Goal Achievers
10.	13th February, 21 10 am -12 pm	Impact of Treasury Operations on Balance Sheet	Shri Symal Ghosh Ray, Former General Manager of Andhra Bank

11.	20th February, 21 10 am -12 pm	Cyber Security and Fraud Management	Shri V.A.Prasanth,Senior Domain Expert, IDRBT
12.	27th February, 21 10 am -12 pm	Financial Planning	Shri Sudhakar Kulkarni, Financial Planner
13.	13th March,21 10 am-12 pm	Complexities in Life Insurance	Shri P.Venugopal, Chair Professor,Life, National Insurance Academy
14.	14th March,21 10 am -12 pm	Opportunities to CMAs in cloud computing	CMA Dr.P.Siva Rama Prasad, Former AGM of SBI

2. Conduct of WEBINTs:

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

Sl. No.	Date and Time	Topic	Speakers
1.	3rd December, 2020 5-7 pm	WEBINT on International Conclave on Macro Economics, International Trade, Banking & Finance in Post Covid-19.	**Key Note Speaker:** • Prof. Lakshman R Watawala, President, Institute of Certified Management Accountants of Sri Lanka **Speaker & Guest of Honour:** • Prof. (Dr.) Manoj Pant, Director, Indian Institute of Foreign Trade • Dr. Hiranya Mukhopadhyay, Principal Public Management Specialist, Asian Development Bank • CMA Agneshwar Sen, Associate Partner and Head, Trade Policy, Tax and Economic Policy Group EY, LLP • Dr. Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI Corporate Centre • CMA B.B. Goyal, Former Addl. Chief Adviser (Cost), Ministry of Finance, Govt. of India and Head of the Indian Cost Accounts Service
2.	20th January, 2021 5-7 pm	WEBINT : Banking Analytics for Strategic Growth	• Dr.Nethra Sambamoorthi, Founder, Promoter and Managing Director, Institute of Analytics (USA) and CRMportals Inc,USA • CMA (Dr.) S.Vasudevan, Director-Business Development, Institute of Analytics (USA) and • Shri Utpal Chakraborty, Head of Artificial Intelligence, Yes Bank.

3. Admission of the 3rd Batch of Certificate Courses for Banking and start of the 2nd batch of Certificate Courses

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. The 2nd batches classes for Certificate Course on Credit Management of Banks started on 26th December, 2021, Certificate Course on Concurrent Audit of Banks started on 9th January, 2021 and Certificate Course on Treasury and International Banking started on 16th January, 2021.

4. Certificate Course on Investment Management in association with NISM

The Department had concluded the 3rd batch of Investment Management (Level-I) on 14th March, 2021. The Leve-II of the 1st batch had concluded with distribution of certificates. The Level-III 1st batch admission would commence soon. The 4th batch admissions have also started and it is tentatively scheduled to start from 3rd week of March, 2021. We hope the members and the students would take the opportunity in taking registration in the course of capital markets.

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

We are proud to state that the publication on **"Aide Memoire" on Lending to Micro, Small and Medium Enterprises Sector"** was released in the auspicious hands of by Shri Anurag Thakur, Hon'ble Minister of State for Finance, Government of India on 30th December, 2020 at New Delhi.

The publication on **"Aide Memoire" on Lending to Micro, Small and Medium Enterprises Sector"** has been appreciated and welcomed by the Bankers, MSME and Industry at large. We have opened the online gateway for purchase of such publications along with offline purchase from both Headquarters and Delhi Office of the Institute. The publication has also been sent to various regulators, ministries, banks, financial Institutions and organization of repute for brand promotion of the Institute. The members and students are requested to collect these priced publications of the Institute as stocks are limited. Copies of the publication will soon be available for reference and reading in the libraries maintained by regions and chapters.

6. Memorandum of Understanding with National Insurance Academy:

The Institute of Cost Accountants of India entered a Memorandum of Understanding (MoU) with the National Insurance Academy and it was ceremoniously celebrated by a WEBINT which was held on **25th January, 2021** where digital signing of MOU was done in the presence of CMA Biswarup Basu, President,ICAI along with CMA P.Raju Iyer, Vice-President, ICAI along with CMA Chittaranjan Chattopadhyay, Chairman, BFSI Committee of ICAI. CMA G.Srinivasan, Director, NIA graced the occasion along with CMA Ramana Rao A , General Manager (F & A, Life Department). The MOU would enable both the organizations to have mutually beneficial activities in the launch of certificate courses in the insurance sector along with joint research activities and publications in the domain of insurance. We hope that the syllabi of the joint collaborative course would be soon framed and the course would be launched for the benefit of the members and the students for their skill development and knowledge enhancement in the Insurance domain.

7. Annual ICAI National Awards -Essay Contest for Bankers:

The BFSI Committee would be organizing an annual ICAI National Awards essay contest for bankers in the month of March, 2021 and we would request all members and students working in the banking sector to wholeheartedly participate in the event. The topic of the essay competition is **"Digital Banking and Inclusive Growth"**. The winners would be felicitated and honoured by the Institute with a medal and a certificate and would be presented by a luminary in the banking field. Details of the event has been published by the BFSI department. The last date of sending the article is till 31st March, 2021.

8. Representation letters for inclusion of CMAs:

The BFSI Directorate has represented to various authorities and employers for inclusion of CMAs in the BFSI sector whenever such a scope has come to the notice of the Institute.

9. Meeting with important dignitaries for apprising BFSI activities:

a) On 2nd February, 2021 officials of the BFSI team met CMA Lalit Wadhwa, Deputy Secretary, Department of Revenue, Ministry of Finance, CMA Anu Kukreja & CMA Suraj Kumar Pradhan, Joint Directors, Department of Expenditure, Ministry of Finance.

b) CMA Biswarup Basu, President of the ICAI, CMA Chittaranjan Chattopadhyay, Chairman, BFSI Banking, Financial Services & Insurance and Indirect Taxation Committee along and CMA B. B. Goyal, Former Addl. Chief Adviser, Ministry of Finance, GoI and Advisor, MARF, ICWAI met Shri Manoj Pandey, IRS, Joint Secretary to GOI, Ministry of Corporate Affairs on 12th February 2021 at New Delhi.

c) On 25th February, 2021, CMA Biswarup Basu ,President, ICAI along with CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services & Insurance and Indirect Taxation Committee and CMA B. B. Goyal, Former Addl. Chief Adviser, Ministry of Finance, GoI and Advisor, MARF, ICWAI met a number of dignitaries in New Delhi
   - Shri Rajesh Verma, Secretary to the GOI, Ministry of Corporate Affairs.
   - Shri K.V.R.Murthy, Joint Secretary to the GOI, Ministry of Corporate Affairs.
   - Shri P.C. Mody, Chairman, CBDT & Special Secretary, GOI
   - Shri G.D. Lohani, Joint Secretary, Tax Research Unit, CBIC, Department of Revenue, Ministry of Finance, GOI
   - Shri Sridhar Parmarthi, Joint Director to the GOI, Ministry of Corporate Affairs

All the dignitaries were presented with a copy of the recent publication of the BFSI Committee titled "Aide Memoire on Lending to Micro Small and Medium Enterprises Sector" (including restructuring of MSME credit)".

10. MSME Month

BFSI is organizing April, 2021 as MSME month with a series of events in MSME sector across the country. The Minister of MSME and Secretary of MSME and other luminaries in MSME would be invited in various webints organized by the committee across the month. We hope to have wider participation for the event and celebrate April, 2021 as the MSME month.

AIDE MEMOIRE ON LENDING TO MICRO, SMALL & MEDIUM ENTERPRISES SECTOR (INCLUDING RESTRUCTURING OF MSME CREDIT)

One of the key focus areas of Indian Economy is to accelerate growth of Micro, Small and Medium Enterprises (MSMEs) and to boost investment in the Indian start-up ecosystem.

The Micro, Small & Medium Enterprises (MSME) Segment is expected to play a significant role in the emergence of the Indian Economy. The Development of this segment is extremely critical to meet the national imperatives of Financial Inclusion and generation of significant levels of employment across Metro, Urban and Rural Areas across the Country.

Further, it can nurture and support development of 'New Age Entrepreneurs' who have the potential to create 'Globally Competitive Businesses' from India to make India Self-reliant.

This Hand Book covers A to Z aspects for MSME Start-ups and also for the existing Units. It delves on Registration Process to Re-structuring of Loans availed from the Financial Institutions including important areas like Registration, Borrowings, TReDS, Listing with NSE, Global Tender System, Re-structuring of Loans, Government guidelines etc.

Hence, this Hand Book is useful to the following stakeholders:

- Consultants who are providing various services to the MSME Clients.
- Bankers who are lending to the MSME Units (Pre-sanction, Sanction, Post Sanction Process including Re-structuring of MSME Loans).
- Promoters of MSME (Existing and New) to have a full knowledge about various Legal, Financial and Statutory aspects of MSMEs including Re-structuring of Loan Process of Financial Institutions etc.

Book Now Available: Grab your copy by

- Online Purchase (Rs 600 inclusive of Rs 100 shipping charges)
- Purchase from Institute's Headquarters (Rs 500)
- Writing to the BFSI department at Institute's Headquarters (12 Sudder Street, Kolkata - 700016) enclosing draft/cheque (Rs 600 inclusive of Rs 100 shipping charges) payable at Kolkata in favour of "The Institute of Cost Accountants of India".

(Members and Students of the Institute are eligible for 20% discount on the book price)

Online purchase can be made as per the following link:

https://eicmai.in/booksale_bfsi/Home.aspx

NATIONAL ESSAY COMPETITION FOR BANKERS

BFSI Updates

Reserve Bank issues guidelines for digital payments

RBI came out with the Master direction for Banks and card issuing entities laying down common minimum standards to ensure security of digital payments.

The circulars lays down guidelines for internet banking, mobile payments, card payments, customer protection and grievance readressal mechanism.

The provisions of these directions would apply to the Regulated entities, scheduled commercial banks, small finance banks, payments banks; and credit card issuing NBFCs.

Such a move is expected to improve the security of digital payment channels and also convenience for users. These directions contain requirements for robust governance, implementation and monitoring of certain minimum standards on common security controls for channels like internet and mobile banking, card payments, etc.

The robust protocol will help in checking frequent outages and disruption while provide secure environment of digital transaction.

The RBI in December temporarily barred largest private sector lender HDFC Bank from selling new credit cards or launching new digital banking initiatives, taking a serious view of services outages at the systemically important bank over the last two years. The digital banking app of the country's largest lender SBI was also facing service outages.

The Master Direction provides necessary guidelines for the Regulated Entities to set up a robust governance structure and implement common minimum standards of security controls for digital payment products and services and the guidelines are technology and platform agnostic and shall create an enhanced and enabling environment for customers to use digital payment products in a more safe and secure manner.

It further said that entities would incorporate secure, safe and responsible usage guidelines and training materials for end users within the digital payment applications.

Res would adhere to extant instructions, updated from time to time, to put in place systems for online dispute resolution for resolving disputes and grievances of customers pertaining to digital payments.

On public awareness financial institute should inform about types of threats and attacks used against the consumers while using digital payment products and precautionary measures to safeguard against the same.

Customers shall be cautioned against commonly known threats in recent times like phishing, vishing, reverse phising, remote access of mobile devices and educated to secure and safeguard their account details, credentials, PIN, card details, devices. With regard to mobile apps, it asked to deactivate the older application version in a phased but time bound manner not exceeding six months from the date of release of newer version.

RBI advises banks to improve grievance redressal mechanism

RBI asked banks to step up disclosures on customer complaints and cost of redressal, cautioning lenders that fail to improve their redress mechanism quickly will be changed. At the end of March 2020 , the total number of complaints across various offices of RBI stood at 3,08,630. This is a steep rise from 1,95,901 complaints outstanding at the ombudsman offices, as per data from the trends and progress report of the RBI.

If a lender has higher unresolved complaints than average, it will be charged. Bank customers, however , will continue to enjoy free cost of redressal.

The central bank said this was necessitated because of increasing customer grievances lodged with the banking ombudsman which merited greater attention by banks.

Disclosures, according to the central bank will serve as an important tool for market discipline as well as for consumer awareness and protection.

Appropriate disclosures relating to the number and nature of customer complaints and their redress facilitate customers and interested market participants to better differentiate among banks to take an informed decision in availing their products and services.

To operationalize the cost recovery framework for banks, peer groups based on the asset size of banks as on March 31of the previous year will be identified. The central bank will consider three parameters-average number of maintainable complaints per branch, average number of maintainable complaints per 1000 accounts held by the bank, and average number of maintainable digital complaints per 1000 digital transactions executed through the banks by it customers.

If there is an excess of one parameter, 30 % of the cost will be recovered from Banks. In case of excess in two parameters, 60 % of the cost will be recovered, and if the bank is found lacking in all three parameters, 100 percent of the cost would be recovered from the Bank.

IRDAI seeks insurers’ views on coverage of COVID vaccine cost

IRDAI has sought health and general insurers’ views on covering the cost of COVID-19 vaccination under their existing plans. As health insurance policies are indemnity based plans where hospitalization expenses are reimburses a person who is hospitalized for at least 24 hours and is given a COVID-19 vaccine can claim the expenses.

The insurance policy also offers alternatively provides outpatient departmental benefits it will cover the cost of the jab.

The health policies that come with an OPD cover are generally quite expensive and experts said this is one reason the category hasn’t picked up in the past. The move will also pose some operational issues.

IRDAI panel recommends separate payments for cost of vehicle and motor insurance premium

IRDAI had issued Motor Insurance Service Provider (MISP) guidelines in 2017 with the intention of streamlining the process and bringing the practices of vehicle insurance, being sold by automotive dealers under the provisions of the Insurance Act, 1938.

MISP refers to an automobile dealer appointed by the insurer or the insurance intermediary to distribute and or service motor insurance policies of automotive vehicles sold through it.

In June 2019, the regulator had set up a committee to review the MISP guidelines. The panel has submitted report in which it has made various recommendations for orderly conduct of motor insurance business through MISP channel.

Among other issues the panel examined the current practice of collecting the premium payment from the customer while soliciting the motor insurance policy. Under the present system, it said there is a lack of transparency in the cost of insurance premium when the customer buys the vehicle for the first time through the automotive dealer and makes the payment through one single cheque.

As the MISP makes payment to the insurance company from his own account the customer does not know the insurance premium being paid as it is subsumed in the cost of the vehicle.

It suggested that this lack of transparency is not in the interest of the policyholder's interest as the true cost of insurance is not known to the customer. The customer may not be aware of the coverage options and discount available in the process. The customer also cannot negotiate with not collect the insurance premium amount in its own account and then transfer the same to the insurance company.

According to the report, the motor insurance business sourced by MISPs through brokers and insurers put together constitutes around 25 percent of the total motor insurance business or around 11.25 percent of the overall general insurance business. In it's report the Committee said the given the potential opportunity for motor insurance business through the MISPs. There is a need to develop and strengthen regulatory framework and supervision activities for the distribution channel.

The panel has also made recommendations on the original equipment manufacturers (OEM). It noted that OEMs wield tremendous influence over the automotive dealers.

IRDAI committee proposes insurance premiums based on traffic violations

Motor Vehicle owners may soon have to pay insurance premium depending on the traffic violations involving the vehicle. While a Committee set up by the IRDAI has proposed that a traffic violation premium should be added to the vehicle insurance policy. The High Powered Committee for Traffic Management in the National Capital Territory (NCT) of Delhi has recommend this proposal to be run on a pilot basis in the NCT.

The pilot has been discussed only for NCT it may be run in any state with the consent of that State Governments and State Police department if the state has adequate system of capturing and transmitting traffic violation data of vehicles it said.

All general insurers registered in the country will have to make changes in their IT systems to mandatorily collect and account for this premium as a separate and additional fifty section.

The working group on linking traffic violation premium in addition to motor own damage insurance, basis third party insurance, additional third party insurance and compulsory personal accident premium. This section will float over both Own damage and third party sections of motor insurance and can be attached to any section of motor insurance.

This will ensure regardless of any insurance cover motor owners wants to buy, the person will be subjected to traffic violation premium, unless he already has in force a motor insurance policy wherein traffic violation premium has impacted the industry.

SEBI changes NAV applicability rules

AMFI has issued FAQ on NAV applicability rules. Barring liquid and overnight funds, investors will get NAV once the money reaches the fund house irrespective of the investment amount. So far the investors used to get the same day NAV if they invest up to Rs.2 lakh before he cut off time. Now, NAV allocation will largely depend on efficiency of the financial system.

The new norms will be applicable in all transactions be it fresh purchase, redemption, SIP and so on. Now, how will the applicable NAV be determined if the subscription money is transferred/credited to mutual fund account first and the application/transaction is received subsequently has to be inferred.

If an investor invests his money and submits application form later, the fund house will follow time stamping rules to allocate NAV i.e the applicability of NAV will depend on the time of realization of funds. In such a scenario, investors will get same day NAV if the fund house receives money before cut off time and next day NAV if realization happens after cut-off time.

SEBI allows MF industry to set up Limited Purpose Clearing Corporation

The capital market regulator, SEBI has allowed the MF industry to set up Limited Purpose Clearing Corporation (LPCC) based on recommendation of a working group set up by the Mutual Fund Advisory Committee (MFAC). The working group had members from fund house, AMFI and Clearing Corporation of India.

SEBI said that LPCC would clear and settle repo transactions in corporate debt securities. Industry experts believe that LPCC will help fund houses deal with redemption pressure and settle transaction in corporate bond markets.

LPCC will have corpus of Rs.150 crore and each fund house will have to contribute to this corpus in proportion of their debt assets. AMFI will calculate contribution for fund houses based on the average AUM of debt funds.

NPS subscribers can make partial withdrawal online

NPS subscribers can make partial withdrawal through online facility. With this investors are no longer required to submit a physical application form to make partial withdrawal in their NPS account.

In addition, PFRDA has done away with the requirement of submitting supporting documents in both online and physical route to make a request for partial withdrawal.

Currently, the NPS subscribers who have remained invested for at least three years can make partial withdrawal of up to 25 % of the total corpus. The required amount will be credited to the subscribers' bank account on the fifth day.

The PFRDA had stated that as of now the eligible subscribers need to submit their applications for a partial withdrawal to the respective nodal officers or point of presence along with the supporting documents to substantiate the reasons for their partial withdrawals. In order to ease the process of partial withdrawal and make it simple online and paperless in the interest of subscribers, it has now been decided to allow the subscribers to allow partial withdrawal based on self-declaration.

Standard Annuity Product Saral Pension by all life insurers as per IRDAI directions

In order to bring uniformity in annuity products across insurers. IRDAI has asked life insurers to offer a standard individual annuity product called 'Saral Pension'.

With a view to having uniformity across insurers, and to make available a product by all life insurers that will broadly meet the needs of an average customer it is felt necessary to introduce a standard, individual immediate annuity product with simple features and standard terms and conditions. Such a standard product will make it easier for the customers to make an informed choice and enhance the trust between the insurers and the insured and would reduce misspelling as well as potential disputes.

Notes

Notes

Contact Details

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Banking, Financial Services and Insurance Committee
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CMA Arup Sankar Bagchi
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