# BANKING, FINANCIAL SERVICES AND INSURANCE (BFSI)

# Chronicle

13th EDITION | MARCH 2023

## 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

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Behind every successful business decision, there is always a CMA

## 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 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.”

# 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 114 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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13th Edition I March, 2023

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# CHAIRMAN'S MESSAGE

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

**Faith - It does not make things easy, it makes them possible.**

We are happy to announce that this BFSI Chronicle would be the 13th issue and the first issue of the BFSI chronicle in this new year of 2023 being published in the midst of joyous fervour of various festivals and occasions like Cheti Chand to Sindhis, Navreh to Kashmiris, Sajibu Cheiraoba to Manipuris, Navroze Mubarak to Parsis,Chaitra Sukhladi to North Indians,Ugadi to Kannadigas, Gudi Padava to Maharashtrians and all others.

Let us be a "Rainbow" in someone else's cloud. Yes, this is what the BFSI Board was doing for the last two years, especially during the Covid days. We have strived to be a "Rainbow "in the lives of our CMA families throughout the pandemic by conducting various webinars, symposiums, certificate courses, workshops, training programmes, career counselling, taking up many issues with RBI, Banks and FIs. Visibility of our Institute and the role of our CMAs have improved to a great extent by conducting such programmes

BFSIB is working round the clock, 24/7 to enhance the image of CMAs and to impress upon all the Institutions that CMAs are not mere accountants but are capable to handle managerial responsibilities with dedication and devotion. The moment any Organisation or Corporate thinks of Management or Audit, CMAs should come to their mind first and this is the top most priority of BFSIB. BFSIB does not miss a single opportunity to greet, interact, take up issues with Regulators, Ministries, Banks and Financial Institutions.

On the eve of International Women's day, let me greet the Women of Substance, the CMAs working all over the globe…." You can do almost anything …. your mind to …. you can swim the deepest ocean and climb the highest peak……. Be a doctor or fly a plane ……. you can face adversity and still walk tall……. you are strong compassionate and much more than words could ever say. Today is yours and so is every other day "May God bless you all with the BEST in life. without ": HER" even "HERO" is " 0" .

We have been positive all through these pandemic years. There is always light. If only we are brave enough to see it. If only we are brave enough to be it. We were continuously saying that there is light at the end of the tunnel. Sometimes , we all just need some uplifting words to carry us through challenging moments. If we want rainbow , we have to put up with the rain….Yes, we had storm , not rain ….but we are through…there is light at the end of the tunnel…our positivity is our strength. Every negative thought is a down payment on our failure. Every positive thought is an investment on our future. Some of the positive developments in the last three months are listed below.

- On representation of the BFSI Board and continuous persuasion CMAs are included in Manager (Credit Analyst), State Bank of India, Assistant Manager, Group A , General Stream of SIDBI, Chief Manager, Credit (Scale-IV) of Bank of Maharashtra, Deputy Managing Director of IDBI, Chief Risk Officer for Tamilnad Mercentile Bank, Sr. Manager (Credit) and Manager (Credit ) in Union Bank of India, Head-Central Internal Audit Division of The Nainital Bank Ltd., CMA Firms are eligible to apply for empanelment as Stock Auditors in the Guwahati Zone of UCO Bank, Stock and Receivables Auditor/Technical and Financial Consultants for the period from 2023-26 in SBI and specialist Officers in Indian Bank for Credit and Forex Departments.

- Announcement of winners of the $2^{nd}$ ICAI National Awards - Essay Contest 2022 for Bankers
- Release of Handbook on Stock and Book Debts Audit (Revised and enlarged $2^{nd}$ Edition)
- Participated in the Business Standard BFSI Insight Summit at Jio World Centre,Mumbai on 21st and 22nd December 2022
- Organized the Seminar on Banking-India@100 Growth Trajectory for Banks held at Chennai organized jointly by the BFSI Board, IPA of ICAI, SIRC of ICAI and Madras Management Association (MMA)
- Organized the Seminar on Social Stock Exchange- Role of Professionals organized by the BFSI Board, ICAI at ICC, Kolkata
- Organized the Pension Month Blended Programme at ICC, Kolkata
- Organized the Hybrid Seminar on “Efficacy of IBC - A Case Study at Kolkata
- Organized a seminar on India at 100 growth trajectory in Amrit Kaal in Kolkata
- Conducted Certificates Courses on Banking
- MOU with NSE Academy

The snapshot of the news in the BFSI sector and the economy are stated as follows:

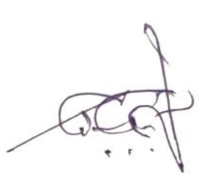
- Indian economy has increased in size from being 10 th to 5 th largest in the world
- Per capita income has more than doubled to Rs.1.97 lakh
- Banks net NPA ratio at 10 year low, GNPAs continue downward journey – RBI
- India’s digital economy grew 2.4 times faster than economy in 2014–19 – RBI article
- Indian banks give highest returns in Asia Pacific region – S&P global
- India remains a top recipient of inward remittances, contributed 12% of total global remittance
- Most of inflation, growth and currency crisis behind us says RBI Governor
- Banks profitability rises to seven-year high due to RBI, government efforts – economic survey
- Jan Dhan accounts total balance surge to Rs. 1.80 lakh crores in December 2022 with 47.84 Cr beneficiaries.
- ECLGS bailed out 14.60 lakh MSMEs as per SBI report

The Reserve Bank of India (RBI) released a Discussion Paper on “Introduction of Expected Credit Loss Framework for Provisioning by Banks” dated $16^{th}$ January 2023 inviting views/opinion on it. The BFSI Board has drafted the views/opinion on behalf of the Institute and has been submitted by the Institute with the RBI on $28^{th}$ February, 2023.

Success doesn’t read birth certificates. You are never too old. Never too young. The line between failure and success is so fine …. that we are on the line and do not know it. Your aim will frame your life. For simple chemistry of life , let’s maintain our pH ( peace and Happiness ). Your smile is your logo, your personality is your business card, and the way you make others feel is your trademark. If your actions inspire others to dream more, learn more, do more, you are a Leader. Be a Leader wherever you are.

Disease and remind us that everyone deserves shelter, everyone deserves a healthy planet, everyone deserves to live and die in dignity. Let us worry about that first, then we can check out our differences.

We wish YOU a very happy and prosperous professional journey.



**CMA Chittaranjan Chattopadhyay**

## FROM THE DESK OF THE DEPARTMENT

***Greetings from team BFSI to all our esteemed readers!***

- India took a major centre-stage at the World Economic Forum conference at Davos, from $16^{th}$ to $20^{th}$ January 2023 where the Union Minister Ashwini Vaishnaw highlighted the importance of combining fiscal and monetary policy to establish India as a $10 trillion economy.

- The Russia-Ukraine war has sent the energy and food prices spiralling, which in turn has sent shockwaves of inflation throughout the world.

- The Reserve Bank of India has released a discussion paper on "Expected Credit Loss Mechanism" which is expected to be a game-changer in the Banking parlance. The Institute of Cost Accountants of India have send adequate and timely representations to the regulator.

- Rupee had a highly volatile ride in the first quarter of 2023 due to geo-political disturbances, risks of sticky retail inflation, which has stayed above 6 per cent and the widening of the Current Account Deficit. India's average current account deficit stands at 3.3 per cent of GDP for the first six months of 2022-23.

- India's G-20 Presidency has given the perfect opportunity to highlight the digital payment system and the core of its innovations-whether it be the JAM trinity (Jan-Dhan, Aadhar seeding and Mobile linking), Account Aggregators (AA) or the Open Network for Digital Commerce (ONDC).

- At the latest MPC meeting on February 8, 2023, it was decided to raise the repo rates to 25 bps. The Prime Lending Rate ranges from 8.65 to 10.10 per cent, while the Deposit rates of Term Lending rates have been revised to a range of 6 per cent to 7.25 per cent. The Monetary Policy Committee (MPC) of the Reserve Bank of India will be meeting on the first week of April to take into cognizance various domestic and global factors. The inflation trajectory may be taken into account considering the Central Banks upper tolerance limit. We will be updating our readers of any latest developments arising and the resulting impacts.

- Taking a cue from global experiences, Credit Suisse and the Silicon Valley Bank have met with an unmitigated disaster as they have faced an existential crisis. The ubiquitous decision of the Federal Reserve to keep increasing overnight interest rates on its bonds has led to huge mark-to-market losses.

**Wish you a Happy Reading!!!!!!!**

# CONTENTS

**ARTICLES ON ESSAY COMPETITION**



**WEBINARS AND EVENTS ORGANIZED BY THE BFSIB**


article

# INTEREST RATE RISK IN BANKING - WAY FORWARD

**CMA C. M. Khurana**
Former CGM -CFO Oriental Bank of commerce
Former CGM (credit) –IIFCL

## Background

Commercial Banks, as we know, are primarily into the business of intermediation between the Depositors/ savers and prospective borrowers/ entrepreneurs. While dealing with money as the basic commodity, the bankers are handling a series of risks .Proper identification, measurement and management of various applicable risks like, Credit Risk ,Operational Risk and Interest rate risk are essential aspects of efficient Banking functioning . Handling of the credit risk posed a major challenge before the banks in the shape of large volume of Non-Performing Assets (NPAs). However, the banks have performed reasonably well in handling credit risk in the recent past and there has been decline in the gross NPAs from 7.3% in 2021 to 5.8 % in 2021-22.

With the credit portfolio of banks showing improvement, the Reserve Bank of India has now decided to address the issue of the Interest Rate Risk in Banking Books (IRRBB). The RBI has brought out detailed guidelines on Governance, measurement and management of Interest Rate Risk in terms of notifications dated 17th February 2023.Thease guidelines are primarily in alignment with the revised framework issued by Basel Committee on Bank Supervision (BCBS), taking into account the emerging requirements of the sector. We briefly discuss various aspects based on the latest RBI notification.

## Basic features of Interest Rate Risk

Interest Rate Risk in Banking Books refers to the current or prospective risk arising from adverse movement in interest rates that affects its banking book position. This risk relates to both capital and earnings of the Bank. Interest paid on deposits and interest received on advances essentially reflects the concept of 'time value of money. 'The IRRBB arises because interest rates can vary significantly over time .The business of banking ,which involves deposit taking and purveying of credit produces two types of mismatches leading to risk .These are in the shape of maturity mismatch and rate mismatch. The maturity mismatch is illustrated by long maturity assets (loans and advances) ,funded by short term maturity liabilities (deposits) and the rate mismatch is illustrated by the variable rate loans /floating rate loans funded by fixed rate deposits. There are inherent interest risk possibilities due to the CASA (current and saving account) portion of deposits being payable on demand versus medium and long term loans given both on fixed and floating rates .Changes in interest rates impact a bank's earnings through changes in Net Internet Income (NII) i.e difference between interest earned and interest paid. Changes in interest rates also impact a bank's Market Value of Equity (MVE), through changes in the economic value of its interest rate sensitive assets, liabilities and off balance sheet positions. When interest rates change, the present value and timing of future cash flows change impacting both NII and MVE.

An optimum mix of deposits and advances portfolios therefore becomes of utmost importance to identify measure, monitor and control the Risk.

## Existing guidelines of RBI on interest rate risk

The extant guidelines on IRR were issued by RBI way back in February 1999, which primarily addressed the Asset liability Management (ALM) system based on 'Traditional Gap Analysis ', to capture maturity structure of the cash inflows and outflows. The intent was to identify mismatches and tolerance levels were prescribed to assess and monitor the position from 'earnings perspective.
This was followed by guidelines of RBI issued in November 2010 which required banks to additionally undertake more advanced 'Duration Gap Analysis' with the 'economic value perspective 'in mind. The date of implementation of the new guidelines shall be communicated by RBI in due course and both the

existing guidelines as above are now proposed to be phased out in due course as informed by RBI.

### Current trends in interest rate changes

Before we further discuss the new guidelines, let us have a brief look at the current trends in interest rate changes.

To deftly handle the unprecedented situation arising out of COVID 19, the RBI proactively took steps to reduce the repo rate by 115 points in a short period from March 2020 to May 2020 to boost and facilitate revival of the economy. This was followed by a status quo maintaining a pause in the changes in policy rate between May 2020 to February 2022 to continue the supportive stance. Thereafter from May 2022 there have been regular dozes of repo rate increase with a total increase of 250 basis points, to deal with the sticky inflationary trend.

RBI has been emphasising the need for effective monetary policy transmission. Although with a slight lag, the interest rates on both deposits and advances have been changing with the changes in repo rate. During the current financial year upto December 2022, external benchmark lending rate and 1 year median marginal cost of funds based lending rate ((MCLR) increased by 225 bps and 115 bps respectively. Overall the weighted average lending rate (WALR) on fresh and outstanding rupee loans rose by 135 bps and 71 bps respectively in the current financial year upto November 2022.On the deposit side, the weighted average domestic term deposit rates (WADTDR) on outstanding deposits increased by only 59 bps in current financial year upto November 2022. (Source: RBI report/economic survey) This majorly contributed to the NII of most of the banks. All these change lead to Interest Rate Risk in the Banking Books as discussed above.

### Main features of the new guidelines

The new guidelines require banks to measure, monitor and disclose their IRRBB in terms of potential change in Economic value of Equity (EVE) and Net interest Income, computed based on a set Of prescribed interest rate shock (Sudden change) scenarios. The six interest rate shock scenarios prescribed to measure IRRBB are as follows:-

a) parallel shock up
b) parallel shock down
c) steepener shock (short rates down and long rates up)
d) flattener shock (short rates up and long rates down
e) short rates shock up
f) short rates shock down

The detailed mechanism of measuring this Risk has been covered with illustrative examples for proper understanding. An indicative standardized methodology for computing IRRBB from the perspective of change in EVE is also provided in the notification. Banks also need to develop and implement an effective stress testing framework for IRRBB, as part of their broader risk management and governance processes, which should be commensurate with their nature, size and complexity as well as business activities and overall risk profile. The entire mechanism needs to be integrated with bank's Internal Capital Adequacy Assessment Process (ICAAP).

Both economic value and earnings -based measures of IRRBB are impacted by assumptions made for the purposes of risk qualification. All modelling assumptions should be conceptually sound and reasonable and consistent with historical experience of each bank relating to various products offered. Illustratively, a few products like fixed rate loans subject to prepayment, term deposits subject to early redemption risk have also been discussed and covered in the notification.

Proper data integrity and model validation thus become relevant in the entire mechanism. The formats for disclosures of IRRBB have also been prescribed inter alia covering qualitative disclosures and quantitative disclosures. Regular monitoring and management of IRRBB can be delegated by the board of each bank to ALCO (Asset Liability committee).

### Conclusion

The new guidelines of RBI on interest rate risk in banking books are quite comprehensive and forward looking. These are based on advanced techniques and are in line with the revised framework issued by the Basel Committee on Banking Supervision. Each commercial bank is required to have a board approved broad business strategies as well as overall policies with respect to IRRBB. The earning capabilities and overall strength of each bank are linked to effective handling of this Risk and therefore require utmost attention of each bank in a comprehensive, holistic and pragmatic manner.

# "UPI-PAYNOW"

## (Reserve Bank of India Allowed UPI Access to G20 Countries)

**Er. Sunil Dasari**
Senior Manager
Bank of Maharashtra, Head Office, Pune

Payment and settlement systems are essential for smooth functioning of any economy. Reserve Bank of India has been making consistent efforts to promote Digital Payments in the country while maintaining their Safety and Security. RBI endeavours to ensure that India has '**State-of-the-Art**' payment and settlement systems that are not just safe and secure, but also efficient, fast and affordable.

An efficient payment system requires that the Fees / Charges / Prices are appropriately determined, to ensure Optimal Cost to users and appropriate return (Revenue / Earning) to operators. An ideal situation would be to leave such cost-related frameworks to be market-determined, based on Demand, Supply, Growth and user considerations.

Hon'ble Prime Minister of India, Shri Narendra Modi and Hon'ble Prime Minister of Singapore, Mr. Lee Hsien Loong launched of Cross-border linkage between India and Singapore using their respective Fast Payment Systems, viz. Unified Payments Interface (UPI) and **PayNow** on 21/02/2023.

The facility was launched through token transactions by Reserve Bank Governor, Shri Shaktikanta Das and Managing Director of Monetary Authority of Singapore, Mr. Ravi Menon using the **UPI-PayNow** linkage.

### Unified Payments Interface-UPI:

Unified Payments Interface is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood. It also caters to the "Peer to Peer" collect request which can be scheduled and paid as per requirement and convenience.

### Uniqueness of UPI:

≈ Immediate money transfer through mobile device round the clock 24*7 and 365 days.
≈ Single mobile application for accessing different bank accounts.
≈ Single Click 2 Factor Authentication-Aligned with the Regulatory guidelines, yet provides for a very strong feature of seamless single click payment.
≈ Virtual address of the customer for Pull & Push provides for incremental security with the customer not required to enter the details such as Card no, Account number; IFSC etc.
≈ QR Code.
≈ Best answer to Cash on Delivery hassle, running to an ATM or rendering exact amount.
≈ Merchant Payment with Single Application or In-App Payments.
≈ Utility Bill Payments, Over the Counter Payments, QR Code (Scan and Pay) based payments.
≈ Donations, Collections, Disbursements Scalable.
≈ Raising Complaint from Mobile App directly.

### Participants in UPI:

≈ Payer PSP.
≈ Payee PSP.
≈ Remitter Bank.
≈ Beneficiary Bank.
≈ NPCI.
≈ Bank Account Holders.
≈ Merchants.

### The Product Process:

**Financial Transactions**: UPI supports the following financial transactions viz.

**Pay Request**: A Pay Request is a transaction where the initiating customer is pushing funds to the intended beneficiary. Payment Addresses include Mobile Number & MMID, Account Number & IFSC and Virtual ID

**Collect Request**: A Collect Request is a transaction where the customer is pulling funds from the intended remitter by using Virtual ID.

**Non-Financial Transactions**: UPI will support following types of non-financial transactions on any PSP App viz.

≈ Mobile Banking Registration*
≈ Generate One Time Password (OTP)
≈ Set/Change PIN
≈ Check Transaction Status
≈ Raise Dispute/Raise query

* Mobile Banking Registration is possible only if the mobile number (which is to be registered) is registered with the Issuer Bank for SMS Alerts/mobile alerts.

UPI can be accessed on all platforms viz. Android / iOS- The Apps have been developed by members on Android 4.2.2 and above/iOS 8.1 and above platforms.

**UPI-PayNow:** UPI-PayNow linkage is the product of extensive Collaboration between Reserve Bank of India (RBI), Monetary Authority of Singapore (MAS), and Payment System Operators of both Countries viz. NPCI International Payments Limited (NIPL) and Banking Computer Services Pte Ltd. (BCS), and Participating Banks / Non-bank Financial Institution.


This Interlinkage aligns with the G20's Financial Inclusion priorities of driving:

≈ Faster.
≈ Cheaper and
≈ More Transparent Cross-border.

Payments and will be a significant milestone in the development of infrastructure for Cross-border Payments between India and Singapore.

Funds held in bank accounts or e-wallets can be transferred to / from India using just:

✓ UPI-ID.
✓ Mobile Number, or
✓ Virtual Payment Address (VPA).

Singapore Users, the service will be made available through DBS-Singapore and Liquid Group (A Non-bank Financial Institution). More number of banks will be included in the linkage over a period of time.

Customers of the participating banks can undertake Cross-border Remittances to Singapore using the Bank's Mobile Banking App. / Internet Banking. At the time of making the transaction, the system shall dynamically calculate and display the amount in both the currencies for convenience of the user.

Users of India and Singapore through the **UPI-PayNow** linkage are:

1. Account-holders of the participating Banks and Financial Institutions in India and Singapore can do the Cross-border Remittance Transactions through the **UPI-PayNow** linkage.
2. Participating Banks in India for receiving remittances through the UPI-PayNow linkage are:


Currently, the participating banks in India for receiving remittances through the UPI-PayNow linkage are:

⇒ State Bank of India.
⇒ Indian Overseas Bank.
⇒ Indian Bank.
⇒ ICICI Bank.
⇒ Axis Bank.
⇒ DBS Bank India.

Apps / Platforms that are to be used for receiving and sending remittances from India to Singapore through the **UPI-PayNow** linkage are the Banks in India, their UPI handles and platforms for receiving and sending remittances are tabulated as following:

| Receiving Remittances | | | Sending Remittances | |
|---|---|---|---|---|
| **Banks** | **UPI Handles Enabled** | **Featuring Apps** | **Banks** | **Apps / Internet banking** |
| Axis Bank | @axisbank | Axis Pay | ICICI Bank | Internet banking |
| DBS Bank India | @dbs | DBS Digibank | Indian Bank | Mobile App (IndOASIS) |
| ICICI Bank | @icici | ICICI iMobile | Indian Overseas Bank | Internet banking |
| Indian Bank | @indianbank | IndOASIS | | |
| Indian Overseas Bank | @iob | BHIM IOB Pay | State Bank of India | Mobile App (BHIM SBI Pay) |
| State Bank of India | @sbi | BHIM SBI Pay | | |

The participating entities in Singapore and their Virtual Payment Address (VPA) handles for sending and receiving remittances. The entities from Singapore enabled for the UPI-PayNow linkage and their VPAs are as follows:

| Banks / Non-bank | VPA Handles Enabled |
|---|---|
| DBS Bank Singapore | Registered mobile number |
| Liquid Group (Non-Bank Financial Institution) | Registered mobile number followed by XNAP (e.g., 123456789XNAP) |

The Account with any of the participating banks in India even if my UPI ID is not registered with the same bank. Presently, the UPI ID registered with the same bank where account is held can only be used.

The Transaction limit for doing cross-border remittance transactions through the UPI-PayNow linkage is a daily transaction limit of ₹ 60,000 in a day (equivalent to around SGD 1,000) for undertaking cross-border remittance transactions through the UPI-PayNow linkage.

The purposes of the remittances be sent or received from the either side is only Person to Person (P2P) remittances for the purposes of "Maintenance of Relatives Abroad" & "Gift" are allowed.

The provision of consent for receiving inward transactions through the linkage is an opt in / opt out feature in the apps of the participating banks in India for receiving the remittances from Singapore.

The transactions through **UPI-PayNow** linkage can be carried out with ease similar to how the domestic transactions through UPI or PayNow take place, and the transaction can be completed within a minute.

The limits under the Liberalised Remittance Scheme (LRS) apply to this linkage while sending remittances from India: In the **UPI-PayNow** linkage transactions, only Person to Person (P2P) remittances towards the purpose of "Maintenance of Relatives Abroad" & "Gift" under the Liberalised Remittance Scheme (LRS) are allowed, and the prescribed LRS limits would be applicable.

Going forward, the **UPI-PayNow** linkage can be expected to cover more banks and financial institutions in India.


The participating banks will be rolling-out an update in their respective UPI apps in a phased manner and the customers will have to update their UPI app so as to enable global remittances feature.

## Roles and Responsibilities of NPCI, PSP in UPI:

**National Payments Corporation of India-NPCI**:

- NPCI owns and operates the Unified Payments Interface (UPI).
- NPCI prescribes rules, regulations, guidelines, and the respective roles, responsibilities and liabilities of the PSPs and TPAP, with respect to UPI. This also includes transaction processing and settlement, dispute management and clearing cut-offs for settlement.
- NPCI approves the participation of Customer Banks, PSP, Third Party Application Providers (TPAP) and Prepaid Payment Instrument issuers (PPIs) in UPI.
- NPCI provides a safe, secure and efficient UPI system and network.
- NPCI provides online transaction routing, processing and settlement services to members participating in UPI.
- NPCI can, either directly or through a third party, conduct audit on UPI participants and call for data, information and records, in relation to their participation in UPI.
- NPCI provides the PSP access to the system where they can download reports, raise chargebacks, update the status of UPI Payment Transactions, etc.

**Payment Service Providers-PSP**:

- PSP is Banking Company that is a member of UPI and connects to the UPI platform for providing UPI payment facility to the PSP and TPAP which in turn enables the Users and merchants to complete payment transactions over UPI.
- PSP either through its own app or TPAP's app, on-boards and registers the User on UPI and links their Funding Accounts to their respective UPI ID.
- PSP is responsible for authentication of the User at the time of registration of such customer, either through its own app or TPAP's app.
- PSP engages and on-boards the TPAPs to make the TPAP's UPI app available to the User.
- PSP has to ensure that TPAP and its systems are adequately secured to function on UPI.
- PSP is responsible to ensure that UPI compliant application and systems of TPAP are audited to safeguard security and integrity of the data and information of the User including UPI Transaction Data as well as UPI app security.
- PSP has to store all the payments data including UPI Transaction Data collected for the purpose of facilitating UPI transactions, only in India.
- PSP is responsible to give all UPI customers an option to choose any bank account from the list of Customer's Banks available on UPI platform for linking with the customer's UPI ID.
- PSP is responsible to put in place a grievance redressal mechanism for resolving complaints and disputes raised by the User.

## Dispute Redressal Mechanism:

- Every User can raise a complaint with respect to a UPI transaction, on the PSP App / TPAP App.
- User can select the relevant transaction and raise a complaint in relation thereto.
- A complaint shall be first raised with the relevant TPAP in respect to all UPI related grievances / complaints of the User. In case the complaint / grievance remains unresolved, the next level for escalation will be the PSP, followed by the Customer's bank and NPCI, in the same order. After exercising these options, the User can approach the Banking Ombudsman and / or the Ombudsman for Digital Complaints, as the case may be.
- The complaint can be raised for both the types of transactions i.e. fund transfer and merchant transactions.
- The User shall be kept communicated by the PSP / TPAP by means of updating the status of such User's complaint on the relevant app itself.

## Conclusion:

Singapore is the first country with which cross border Person to Person (P2P) payment facility has been launched. This will help the Indian diaspora in Singapore, especially migrant workers/ students and bring the benefits of digitalisation and FINTECH to the common man through instantaneous and low-cost transfer of money from Singapore to India and vice-versa. Acceptance of UPI payments through QR codes is already available in selected merchant outlets in Singapore.

The virtual launch was preceded by a phone call between the two Prime Ministers, wherein discussions were held on areas of mutual interest. Prime Minister thanked Prime Minister Lee for his partnership in taking the India-Singapore relationship forward and looked forward to working with him under India's G20 Presidency.

# GREEN HYDROGEN INITIATIVE TO BOOST INDIA's GDP

**Shri Hargovind Sachdev**
Former General Manager
State Bank of India

**"Scientific innovations in India are a key to a decarbonised world; Green Hydrogen technology is critical in Renewable solutions."**

The development of clean energy capacity from green Hydrogen forms a significant part of India's strategy to meet its climate commitments, which include 2030 goals to reduce emissions intensity by 45% and to transition to 50% electric power from non-fossil-based sources.

Green Hydrogen is a zero-emissions source of fuel, a feedstock gas for industry and a source of heat and power for buildings. It is a sustainable, environmentally friendly, and zero-emission energy source. When burnt with pure oxygen, Hydrogen produces harmless water vapour, rather than carbon dioxide, with zero greenhouse gas emissions.

Currently, most Hydrogen comes by reforming methane (CH4) at a high temperature, making carbon dioxide a byproduct. In sophisticated plants, Hydrogen gas generates by electrolysing water through an electrolytic cell. The process utilises electricity from renewable energy sources such as wind or solar.

The harnessing of Green Hydrogen on large scales represents the efforts and results achieved in renewable energy expansion and energy efficiency. The step is the essential premise for achieving sustainable development goals. The application of Hydrogen is extensive, encompassing Industry, Household, Transportation, Mobility and Energy Storage areas. Hydrogen has a long shelf life for storage for months without losing much power.

Its potential applications are also diverse. It provides much more energy per litre, or gram, than electric batteries, making it an obvious candidate to power engines in planes, trains, cars and ships. It can also store energy giving it a potential role in power generation and as a backup for intermittent supply from renewables such as solar and wind.

With the environmental and market pressure, the efforts and ambitions of India in the hydrogen industry are evident because the country has a perfect geographical situation for renewable energy and material and technical conditions. Green Hydrogen brings energy security, employment opportunities, international exchange, and hydrogen export profits. Improving electrolysis technology, storage technology, transportation technology, and complete application helps ensure a sustainable society.

Presently, the UAE, Saudi Arabia, Morocco, and Oman are the countries that already have actual operations and significant investments in the hydrogen energy industry.

The environmental benefits of Hydrogen are many. When used as an energy source, Hydrogen produces no emissions besides water. Zero-polluting emissions are a revolutionary advance over the current energy sources.

The government of India announced the approval of the National Green Hydrogen Mission to establish India as a significant green hydrogen production hub, with plans to reach 5 million tonnes of production and spur nearly $100 billion of investment by 2030. The strategy is to help India become energy independent and decarbonise significant sectors of the economy, including industrial, mobility and energy.

Globally, Hydrogen production is 90 million metric tons annually, although the vast majority comes from fossil fuels, which create pollutants and GHG emissions. The development of clean hydrogen capacity, such as green Hydrogen, which uses renewable energy to power the process of extracting Hydrogen from other materials, will require massive investments in infrastructure, electrolysis, and transport. Hydrogen is considered one of the critical building blocks of the transition to a cleaner energy future, particularly for sectors with difficult-to-abate emissions, in which renewable energy solutions such as wind or solar are less practical.

India unveiled its national hydrogen mission in 2021, aimed at creating a significant role for Hydrogen in its decarbonisation strategy and envisioning India as a global hub for green hydrogen production and exports.

While scaling green hydrogen production to 5 million tonnes and associated additional renewable energy capacity by 125 GW by 2030, the government also anticipates that the strategy will result in over Rs 8 lakh crore (US$97 billion) in total investments and the creation of over 600,000 jobs. Additional anticipated benefits of the strategy include the reduction of nearly 50 million tonnes of annual greenhouse gas emissions and over $12 billion in cuts in fossil fuel imports by 2030. The government approval included outlays of over $2 billion for incentives under the Strategic Interventions for Green Hydrogen Transition Programme (SIGHT), which target the domestic manufacturing of electrolysers to produce green Hydrogen.

At the recent COP-26 summit, hydrogen advocates made a case for the fuel's relevance to the climate crisis. International Renewable Energy Agency and the World Economic Forum are launching a 'Green Hydrogen Toolbox' to help nations. But for all its potential, the economics of Hydrogen are stubbornly hard for companies to work out. Huge government investment is necessary to reduce carbon emissions and push Hydrogen from quirky demonstration fuel into the mainstream.

The crucial point is that "Green" hydrogen, produced by electricity from renewable energy sources, currently only accounts for about 1% of the global hydrogen supply. For now, it is also the most expensive source of Hydrogen, although renewable electricity prices are falling.

India has taken a proactive decision to join the Hydrogen producing countries in a big way towards a sub-zero carbon mission by 2070. Adoption of Green Hydrogen shall enhance GDP.

**Rightly said, "Not all chemicals are bad. Without Hydrogen and oxygen, there would be no way to make water, vital for life."**

# BANKING IS NECESSARY, BANKS ARE NOT

## A trigger for imperative transformation of Banks

**Dr. S K Gupta**
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### The Perspective

Bill Gates's now famous statement that "people need banking, not banks" is a call-to-action for the banking industry. Its crux is that the world can't operate without banking, but it can get by without the players that traditionally offer such services. To survive and thrive, banks must think about their role and how they can expand their functions to stay relevant in their customers' lives. The future of banking will look very different from today. Faced with changing consumer expectations, emerging technologies, and new business models, banks will need to embrace emerging technology, remain flexible to adopt evolving business models, and put customers at the centre of every strategy.

### Banks are at cross roads

The notion that customers need to go to their banks to do banking is rapidly being challenged. Increasingly, digitally-savvy customers are expecting to avail financial services seamlessly as they navigate through their progressively digitized lives. For banks this has led to a rethink of how they interact with their customers. The digital world is about relevance, about speed, about frictionless experiences. It is about transparency and security while assuring trust.


These are major challenges to banks that are used to operating inside bricks-and-mortar offices. In order to grow in the evolving digital world, banks have to adopt digital mind set. This means more than just applying "digital lipstick" with Internet and mobile banking. It means embracing digital thinking, enabling scalability, enhancing customer analytics and delivering services directly to customers at a time and place that suits them. Banks are falling short when it comes to meeting customer expectations around product variety and accessibility. By addressing these needs, banks can reimagine their credit products, models, processes and corporate culture to deliver the next generation banking experience.

Banking, then, is at cross roads, and leading banks are shifting from providing core banking-centric services to delivering customer-centric services. The following three factors underpin this:

- **The demand for service aggregators :** Customers are reluctant to go to one place to view a product, another to secure finance and a third to get insurance
- **The approach of neo banks :** which focus on the experience factor to win customers' hearts. These high-tech competitors are moving into this space, while capitalising on, and even cannibalising, banks' offerings and services in ways that revolutionizing dimensions and architecture of customers service.
- **The acceleration of change due to the internet and e-commerce:** Over the past decade, numerous financial start-ups have launched banking services. On top of that, the "new normal" is here – COVID-19 has forced banks to digitise faster than expected, with the ability to adapt to this change differentiating leaders from laggards

## Transform into 'Living banks'

Customer needs are rapidly changing. To meet those needs, banks need to make customer experience the starting point for process design. As banks move away from the shrinking opportunities provided by traditional banking and undertake the journey to become Living Banks, they need to reimagine and orient around how their customers and employees are experiencing their brand. EY suggests five questions that banks should be asking as they look to redefine transformation:

- Is our transformation strategy bold enough?
- Does our transformation strategy, plan and actions preserve or improve margin and operating leverage in times of uncertainty?
- Are customers, employees and business partners at the forefront of our transformation plans?
- How do we create a culture of continuous transformation?
- Are we providing our leaders with the training and coaching to rethink transformation and understand what success looks like?

## Reimagining Credit architecture

Create new credit-related products and services. Change the credit decision making mind set by implementing a more informed decision making process to increase reach and access, to ensure scale and efficiency , where lenders transition from a hard "yes or no" decision based on a traditional scoring mechanism to a more nuanced "yes, but/no, but" framework. Leverage data strategically. This will reveal patterns that fundamentally change the structure and accuracy of risk assessment models for both underserved segments and traditional customers.

## Futuristic payment architecture

A new payments paradigm is emerging where payment is no longer the final obstacle to a transaction. Rather, it's an enabler of a more integrated commerce experience in which customers themselves become part of the payments infrastructure. To stay relevant, banks must drive this shift and adapt commerce experiences accordingly. The payments infrastructure will no longer be just a conduit for payment authentication. Instead, it will facilitate greater transparency and traceability through a frictionless commerce experience. If banks are to continue to play a valuable and central role in the payments domain, they should focus on removing all unnecessary friction and automating the mundane and repetitive experiences that waste time and mental bandwidth. To ensure that a seamless payment does not compromise the security of the transaction, banks should spearhead the development of technology that is tied to a consumer's identity—for example, biometric behavioural authorizations, integration across platforms for single sign on, or gestures. Consumers have come to expect this of their banks.

## Banking focused on Values

Historically, the bank—along with a place of worship and a market—was a pillar of town, and the banker was a key figure in a community's local economy. With increasingly diverse communities served by large and often impersonal, homogenous bank networks, this connection with local communities has been lost for the current generation of customers. We can reinvent the role of the banker as a trusted financial wellness partner by. Banks have a unique opportunity to align value and values, by focusing on consumers' and communities' financial well-being in a win-win relationship that delivers long-term trust, relevance and profits.

## Banking with Empathy

In an increasingly digital world, where people are left seeking more empathetic, human connections, banks have become functionally complete yet emotionally detached. The resulting vicious cycle—where banks are seen as largely homogenous, offering similar products and services— leaves them heading into a commodity and margin trap. Currently, they are over-indexing on functionality (IQ) and under-indexing on empathy (EQ. Banks must humanize their services. This means making them more personalized and empathetic. By enabling genuine connections around customer outcomes and goals, they can play a greater role in looking after customers' financial wellbeing and earn their trust.

### Data & Governance

Treating data as a product is a shift in mind set that has the potential to transform the foundations of banking. The crux of the challenge for business leaders seeking to achieve values-driven growth is, in Peter Drucker's words: "If you can't measure it, you can't improve it." Like their counterparts across industries, bank leaders currently lack the tools to build successful purpose driven strategies and articulate them to their customers and employees. Banks should seek to establish a specific impact measurement framework, implementing a purpose-driven infrastructure built around foundational data collection, analytics and visualization platforms that will empower employees and corporate leadership to access, analyse and build intelligence for providing nextgen experience to the customers.

### Unbundle and Win

Bodie and Crane classification (Harvard Business Review, 1996) sees banks as a bundle of six basic functions: three core *transfer* functions and three *interaction* functions. The core functions are transfers in time **(credit** provisions, savings and loans with maturity transformation), transfers in scale (**investments** and funding large scale enterprise) and transfers in space (**payments**). The three interaction functions are **information**, **risk** and **incentive**. The traditional theory here says that the reason for the bundling is that control over payments provides **information** that gives banks competitive advantage in **risk** management for **credit** and **investment** decisions: In other words, to make the adjacent transfer functions more efficient. And, indeed, that may well have been the case in the past. Many jurisdictions have already started to unbundle payments and the provision of credit .There is simply no reason why the three transfer functions essential to society should be bundled in one kind of institution any longer.

### Green financing and sustainable banking

Green financing and sustainable banking are emerging as important concepts in the world of finance. They represent a new approach to financing that is focused on sustainability and environmental responsibility. Sustainable financial products can propel revenue growth for banks and contribute substantially to businesses' progress in meeting global climate goals. But success requires a strategic approach. As more investors and institutions recognize the importance of sustainability and ESG issues, we are likely to see a significant increase in demand for green financing and sustainable banking services. In fact, sustainable banking brings several business benefits. Research by Global Alliance for Banking on Values (a network of sustainable banks) has shown that sustainable banks have higher and more stable profits, as well as stronger growth than other banks.

### Talent for futuristic banking

There is an imperative need to make banking a dream job again, super-charged with purpose and diverse perspectives. Banking is no longer the dream job for top university graduates; tech is. This is because there is a crisis of purpose. Banking jobs used to have huge prestige, earning bankers social currency in addition to financial rewards. But since the financial crisis of 2008, both seem to have diminished. We can make banking the dream job again by crafting purpose from within, co-creating jobs of tomorrow and investing in diversity as a core differentiator. At the forefront of this revolution the question is raised, can the banking sector really become the employer of choice for the young entrepreneurs they need? Customer-centric & entrepreneurial staff will continue to challenge banks to create new ideas for delivering products and services to customers and the banks need to commit to transition staff from the typical transactional to a more dynamic advisory role in order to deliver expectations of the ever demanding customer.

### Digital banking

Digital banking is entering a new chapter in its evolution. Consumers are much more aware of digital banking features and many first-time users have grown comfortable using them, at least for their transactional banking needs. Moreover, the banking landscape is shifting from - no choice but embrace digital to digital by choice. While consumers are going to exercise their choice in different ways, it appears that use of digital banking is likely to continue for simple, transactional activities. Yet banks have an opportunity to humanize digital experiences to further make these digital banking behaviours stick. It can be positioned at the heart of personalizing consumers' day-to-day interactions and elevating their financial wellbeing.

### Develop a plan to migrate to a journey-based organization:

As banks increasingly focus on personalized interactions, a journey-based operating model will be required which will integrate resources with different capabilities and knowledge and will cut across the currently established siloes. To do this, banks will need to re-think how they staff, measure, and track performance, and ultimately deliver to customers.

## Final thoughts

Technology, innovation, and workforce transformation are reshaping the banking industry. These forces are driving dramatic change, and banking leaders must decide if they will be pioneers, follow fast, or be left behind. The digital world is presenting some of the greatest challenges ever to traditional banks. Some will seize the opportunity to transform and thrive, while others will struggle to evolve and be left to engage with an ever diminishing number of non-digital customers. The big banks that succeed will be those willing to transform themselves by shedding the old versions of themselves in favour of something quite different. What does “different” require? It requires that banks extend their reach and create ecosystems that offer hyper-relevance and a market of one for each customer. In short, it requires becoming a Living Bank. In this way, they can provide “a deeply personalized ‘me-centred’ experience wherever, whenever and however the customer wants. To compete in a digital world at a time when global events have accelerated the shift in customer expectations and habits, banks must focus on personal and emotional connections with customers to strengthen their trust and grow. Banks have an opportunity to forge strong customer connections, build trust and ultimately drive growth by infusing humanity and personality into digital channels where they have the most impact.

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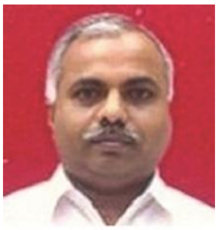
# CREDIT RISK PROVISIONS IN BANKING SECTOR

## (Expected Loss Vs. Incurred Loss)



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The exposures taken by banks are inherently susceptible to various risks, of which credit risk is of primary importance. Credit risk represents the risk that the loans given by a bank will not be paid in full, i.e., the bank is likely to suffer some level of losses on its exposures. Such credit losses are a natural corollary of banking business which involves lending to ventures based on reasonable assessment of their viabilities. Since such assessments involve estimations of future trajectories of the performance of a venture as well as that of the macro economy in which such ventures are embedded, an element of uncertainty is inherent in such assessments, especially since the assessments would also involve biases such as projections of the bank's own historical experiences into the future. Thus, the probability of deviations from such assessments is non-zero at any point. It thus follows that the probability of losses arising out of such assessment is also non-zero at any point.

The Reserve Bank of India (RBI) on released the Discussion Paper (DP) that aimed to comprehensively examine various issues and proposed a framework for the adoption of an expected loss-based approach for provisioning against loan loss by banks in India.

**Synopsis of Discussion Paper**:

≈ The Reserve Bank of India (RBI) published a discussion paper on "loan loss provision", proposing a framework for adopting an expected loss (EL)-based approach for provisioning by banks in case of loan defaults.

≈ Presently, banks are required to make loan loss provisions based on an 'incurred loss' approach, which used to be the standard globally till recently.

≈ The RBI's proposal is based on the premise that the present "incurred loss" based approach for provision by banks is inadequate, and there is a need to shift to the "expected credit loss" regime in order to avoid any systemic issues.

The International Accounting Standards Board (IASB) and other accounting standard setters set out principles-based standards on how banks should recognise and provide for credit losses for financial statement reporting purposes.

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|---|---|
| IFRS International Financial Reporting Standards | In July 2014, the IASB issued International Financial Reporting Standard 9. Financial Instruments (IFRS 9), which introduced an "Expected Credit Loss" (ECL) framework for the recognition of impairment. |

In July 2014, the IASB issued International Financial Reporting Standard 9. Financial Instruments (IFRS 9), which introduced an "Expected Credit Loss" (ECL) framework for the recognition of impairment.

### Impairment Recognition under IFRS-9:

Effective for annual periods beginning on or after 1 January 2018, IFRS 9 sets out how an entity should classify and measure financial assets and financial liabilities. Its scope includes the recognition of impairment. In the standard that preceded IFRS 9, the "incurred loss" framework required banks to recognise credit losses only when evidence of a loss was apparent. Under IFRS 9's ECL impairment framework, however, banks are required to recognise ECLs at all times, taking into account past events, current conditions and forecast information, and to update the amount of ECLs recognised at each reporting date to reflect changes in an asset's credit risk. It is a more forward-looking approach than its predecessor and will result in more timely recognition of credit losses.

### Expected Credit Loss its Scope of Application:


Under IFRS 9, financial assets are classified according to the business model for managing them and their cash flow characteristics.

In essence, if

a) a financial asset is a simple debt instrument such as a loan,
b) the objective of the business model in which it is held is to collect its contractual cash flows (and generally not to sell the asset) and
c) those contractual cash flows represent solely payments of principal and interest, then the financial asset is held at amortised cost.

The ECL framework is applied to those assets and any others that are subject to IFRS 9's impairment accounting, a group that includes lease receivables, loan commitments and financial guarantee contracts.

**Benefits of 'Expected Loss' System**:

The forward-looking expected credit losses approach will further enhance the resilience of the banking system in line with globally accepted norms.

It is likely to result in excess provisions as compared to shortfall in provisions as seen in the incurred loss approach, RBI said in the Discussion Paper.

### Three Stages of Impairment:

Impairment of loans is recognised on an individual or collective basis in three stages under IFRS 9:

**Stage 1**: When a loan is originated or purchased, ECLs resulting from default events that are possible within the next 12 months are recognised (12-month ECL) and a loss allowance is established. On subsequent reporting dates, 12-month ECL also applies to existing loans with no significant increase in credit risk since their initial recognition. Interest revenue is calculated on the loan's gross carrying amount (that is, without deduction for ECLs). In determining whether a significant increase in credit risk has occurred since initial recognition, a bank is to assess the change, if any, in the risk of default over the expected life of the loan (that is, the change in the probability of default, as opposed to the amount of ECLs).

**Stage 2**: If a loan's credit risk has increased significantly since initial recognition and is not considered low, lifetime ECLs are recognised. The calculation of interest revenue is the same as for Stage 1.

**Stage 3**: If the loan's credit risk increases to the point where it is considered credit-impaired, interest revenue is calculated based on the loan's amortised cost (that is, the gross carrying amount less the loss allowance). Lifetime ECLs are recognised, as in Stage 2.

### Twelve-month Vs Lifetime Expected Credit Losses:

ECLs reflect management's expectations of shortfalls in the collection of contractual cash flows.

Twelve-month ECL is the portion of lifetime ECLs associated with the possibility of a loan defaulting in the next 12 months. It is not the expected cash shortfalls over the next 12 months but the effect of the entire credit loss on a loan over its lifetime, weighted by the probability that this loss will occur in the next 12 months. It is also not the credit losses on loans that are forecast to actually default in the next 12 months. If an entity can identify such loans or a portfolio of such loans that are expected to have increased significantly in credit risk since initial recognition, lifetime ECLs are recognised.

Lifetime ECLs are an expected present value measure of losses that arise if a borrower default on its obligation throughout the life of the loan. They are the weighted average credit losses with the probability of default as the weight. Because ECLs also factor in the timing of payments, a credit loss (or cash shortfall) arises even if the bank expects to be paid in full but later than when contractually due.

### Disclosures:


Banks subject to IFRS 9 are required to disclose information that explains the basis for their ECL calculations and how they measure ECLs and assess changes in credit risk. They must also provide a reconciliation of the opening and closing ECL amounts and carrying values of the associated assets separately for different categories of ECL (for example, 12-month and lifetime loss amounts) and by asset class.

### Regulatory Treatment of Accounting Provisions:

The timely recognition of, and provision for, credit losses promote safe and sound banking systems and play an important role in bank supervision. Since Basel I, the Basel Committee on Banking Supervision (BCBS) has recognised that there is a close relationship between capital and provisions. This is reflected in the regulatory treatment of accounting provisions under the Basel capital framework.

In October 2016, the BCBS released for public comment a consultative document and a discussion paper on the policy considerations related to the regulatory treatment of accounting provisions under the Basel capital framework, in light of the shift to ECL by both the IASB and US Financial Accounting Standards Board. Given the diversity of accounting and supervisory policies in respect of provisioning and capital across jurisdictions, coupled with uncertainty about the capital effects of the change to an ECL accounting framework, the BCBS decided to retain – for an interim period-the current regulatory treatment of provisions as applied under both the standardised approach and internal ratings-based approaches. The BCBS will consider the longer-term regulatory capital treatment of provisions further, including undertaking analysis based on quantitative impact assessments.

The BCBS has also set out optional transitional arrangements for the impact of ECL accounting on regulatory capital and the corresponding Pillar 3 disclosure requirements should individual jurisdictions choose to implement such transitional arrangements.

### Supervisory Guidance for Credit Risk and Accounting for Expected Credit Losses:

**Principle 1**: (Board and Management Responsibilities) A bank's board of directors (or equivalent) and senior management are responsible for ensuring that the bank has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the bank's stated policies and procedures, the applicable accounting framework and relevant supervisory guidance.

**Principle 2**: (Sound ECL Methodologies) A bank should adopt, document and adhere to sound methodologies that address policies, procedures and controls for assessing and measuring credit risk on all lending exposures. The measurement of allowances should build upon those robust methodologies and result in the appropriate and timely recognition of expected credit losses in accordance with the applicable accounting framework.

**Principle 3**: (Credit Risk Rating Process and Grouping) A bank should have a credit risk rating process in place to appropriately group lending exposures on the basis of shared credit risk characteristics.

**Principle 4**: (Adequacy of the Allowance) A bank's aggregate amount of allowances, regardless of whether allowance components are determined on a collective or an individual basis, should be adequate and consistent with the objectives of the applicable accounting framework.

**Principle 5**: (ECL Model Validation) A bank should have policies and procedures in place to appropriately validate models used to assess and measure expected credit losses.

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**Principle 6**: (Experienced Credit Judgment) A bank's use of experienced credit judgment, especially in the robust consideration of reasonable and supportable forward-looking information, including macroeconomic factors, is essential to the assessment and measurement of expected credit losses.

**Principle 7**: (Common Data) A bank should have a sound credit risk assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for expected credit losses.

**Principle 8**: (Disclosure) A bank's public disclosures should promote transparency and comparability by providing timely, relevant and decision-useful information.

**Conclusion**: The inadequacy of the incurred loss approach for provisioning by banks and its procyclicality, which amplified the downturn following the financial crisis of 2007-09, has been extensively documented. One of the major elements of the global response to these findings have been a shift to expected credit loss (ECL) regime for provisioning. As a further step towards converging with globally accepted prudential norms, Reserve Bank of India proposed to adopt expected loss approach for loss allowances required to be maintained by banks in respect of their exposures

# CURRENCY & COINS

## (Is Potential Vectors in Transmissible Diseases?)

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Hyderabad

Globally, Money is one of the items most frequently passed from hand to hand. Money is frequently touched during daily life. During its passing, money can get contaminated and may thus plays a role in the transmission of microorganisms to other people. For example, money may get contaminated with microorganisms from the respiratory and gastro-intestinal tract during counting. Money is not usually suitable for the survival of microorganisms, except for some that are resistant to external conditions and non-resistant forms of bacteria. In addition, the general hygiene levels of a community or society may contribute to the amount of microbes found on coins and notes, and thus the chance of transmission during handling of money. While antimicrobial resistance has steadily been increasing, e.g., **with**

- **Extended-Spectrum Beta Lactamases**: Extended-spectrum beta-lactamases (ESBLs) are enzymes that confer resistance to most beta-lactam antibiotics, including penicillin's, cephalosporins, and the monobactam aztreonam. Infections with ESBL-producing organisms have been associated with poor outcomes.

  **ESBL Producing**: Escherichia coli (E. coli). Escherichia coli, is a type of bacteria that normally lives in intestines. It's also found in the gut of some animals. Most types of E. coli are harmless and even help keep digestive tract healthy. But some strains can cause diarrhoea through eat contaminated food or drink fouled water.

- **Klebsiella spp**: Klebsiella is a type of Gram-negative bacteria that can cause different types of healthcare-associated infections, including pneumonia, bloodstream infections, wound or surgical site infections, and meningitis.

Contaminated banknotes and coins contribute to the transmission of the above multi-drug resistant microorganisms in the community.

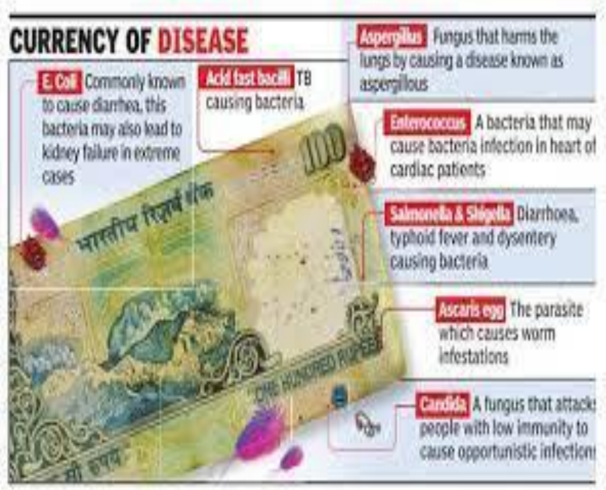
While the kind of isolated bacteria between research studies can vary, due to the methods used, season, environmental conditions, sort of money (coin or banknote) or local community flora, in general, **Gram-positive bacteria** were the most predominant.


The researchers, including experts in microbiology and pulmonary medicine, aimed to determine presence, type and nature of bacterial contamination on paper currency and coins in circulation. On conducting a microbial isolation test of the samples collected, they found that almost all of them were contaminated with bacteria, fungus and parasite. Also, majority of the currency was laced with more than one microbial contaminant.

One research study was to ascertain the survival status of bacteria including Staphylococcus aureus, Escherichia coli, and Vancomycin-Resistant

Enterococci (VRE) on banknotes from different countries and the transmission of bacteria to people who come in contact with the banknotes. The survival rate was highest for the **Romanian Leu** (The Romanian leu is the currency of Romania) yielding all three microorganisms used after both three and six hours of drying. Furthermore, the Leu was the only banknote to yield VRE after one day of drying.

Other currencies either enabled the survival of Extended-Spectrum Beta-Lactamases (ESBL) and VRE (e.g., Euro Currency), but not of MRSA, or the other way round (e.g., US Dollar). While a variety of factors such as community hygiene levels, people's behaviour, and antimicrobial resistance rates at community level obviously have influence on the transmission of resistant microorganisms, the type of banknote-paper may be an additional variable also consider.




Researchers gathered currency notes and coins from different sources like auto-rickshaw pullers, medical stores, vendors etc. and found them laced with bacteria and viruses. However, this source of infections is not addressed well in disease prevention protocols.

Research Results showed that currency is contaminated with microbes and this contamination may play a role in transmission of antibiotic resistant or potentially harmful organisms," said study's principal author Dr Sunita Singh from KGMU's microbiology department.

A study published in Biomedicine and Biotechnology, an open access peer-reviewed journal, pointed to high levels of pathogenic or potentially pathogenic bacteria contamination in bank notes around the world -96.25% in Palestinian notes, 91% in Colombia, 90% in South Africa, 88% in Saudi one Riyal paper notes and 69% in Mexico's polymer notes.

In all isolates, Bacillus (a vast group of hardy spores forming species that live in soil and are found in the environment could also be transferred on money) had the highest incidence.

The most common prevalence was observed in the market places; the highest being at the **butcher shops**. Besides bacteria, fungal isolates were also found on the currency notes and coins.

"Bacteria like E. coli, Proteus species, K pneumoniae, Salmonella species, Shigella species and Enterococcus species were found, which are an indication of fecal contamination," researchers noted.

COVID-19, caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) has scourged the world ever since its outbreak in December 2019, affecting over three million people and claiming more than 2,07,000 lives over 200 countries all over the globe. Human-to-human transmission of SARS-CoV-2 occurs primarily by fomites and by respiratory droplets. This has, in turn, fanned public concerns that **cash and coins** could **transmit the virus as well**.

Central Banks of the world have reported a surge in the number of queries from the media on the safety of using cash. Internet searches pertaining to both 'Cash' and 'Virus' or 'COVID' is at an all-time high. The apprehensions have been fuelled by studies that have demonstrated the remarkable stability of SARS-CoV-2 on inanimate objects and surfaces.

**Reactions of International Organisations & Central Banks**:

World Health Organization (WHO) is uncertain about the issue and has made an uncommitted statement saying, There is currently no evidence to confirm or disprove that COVID-19 virus can be transmitted through coins or banknotes. At the same time, the WHO has advised that people wash their hands regularly **after touching any frequently touched surface** or object, 'Including Coins or Banknotes'.

CENTERS FOR DISEASE™ CONTROL AND PREVENTION

On the other hand, the Centers for Disease Control (CDC) and Prevention is completely silent. A Bulletin from the Bank for International Settlements, the body owned by 62 central banks, states that the perceived risks of transmission of COVID-19 via cash and coins, valid or not, brings the potential **for Digital Payments to the Forefront**. The Deutsche Bundesbank has advised that the risk of transmission via banknotes is minimal, while the South African Reserve Bank has clarified that there is no evidence of transmission by cash.

The People's Bank of China **took an extreme step** in February 2020 of clearing thousands of Bank Notes in Circulation, disinfecting them with ultraviolet light, **locking them up for 14 days before releasing them into circulation**.

**Precautions and Practices while Handling Cash and Coins**:

- ✓ Although the need of the hour, prioritisation of cashless/contactless transactions cannot happen overnight, specifically in developing countries, like India, where approximately 95% of all transactions are still made using cash. The more the number of transactions, the longer the banknotes and coins remain in circulation, and the more opportunity for them to become contaminated. Hence, proper precautions should be taken by the people while dealing with banknotes/coins.

- ✓ Hands should be promptly washed with soap and water soon after handling cash/coins. The use of gloves and alcohol-based sanitisers (70% Alcohol) is advisable for people who have to frequently handle cash, for instance, shopkeepers, but even then, it is advised that they do not touch their face and dispose of gloves safely after use.

- ✓ Cash/Coins can be left untouched for a week before reuse. In addition, coins can be easily washed with soap and water. Banknotes can be ironed (preferably steam press) with temperature set between the 'Silk' and 'Rayon' Setting (~148°C to 190°C). Such high temperatures would be expected to kill the SARS-CoV-2 as the virus gets readily inactivated at a temperature of 70°C.3

- ✓ Lastly, instalments dealing with large transactions, like Central Banks, can consider disinfecting Cash and Coins using ultraviolet light.

**Conclusion**: In conclusion, banknotes and coins should be considered as potential sources of transmission of the novel SARS-CoV-2. Further laboratory stimulation data might help resolve the issues. Until then, handling of cash and coins should be done with utmost precaution; cashless and contactless transactions using online banking and digital wallets should be pursued wherever possible. The alternatives to cash-based transactions are "Digital Transactions" like **CBDC** offer a good alternative. However, use of Debit/Credit cards is no safe bet either, considering the remarkable stability of SARS-CoV-2 on plastic. Moreover, Card Transactions generally require a Signature/Personal Identification Number (PIN) entry at Merchant-owned devices that could be a potential source of infection.

**Contactless Transactions** are the best options under prevailing circumstances. It can be 'Card-based' or 'non-card based'. Card-based contactless transactions do require a Credit or Debit card; however, the card only needs to be tapped near a point-of-sale terminal that is equipped with contactless payment technology (also known as radio-frequency identification or near-field communication technology) and does not require the manual entry of a Signature/PIN.

Alternatively, one can circumvent the need to carry a card by securely storing their Debit / Credit card information in their smartphone or smartwatch using easily downloadable payment applications (like Apple Pay); instead of using the actual card, successful transactions can be made by tapping the smart device. Transaction sizes by this 'tap-and-go' method, as it is commonly called, are limited, and the allowable amount varies by country and by the bank. Recently, however, banks and card networks in the UK, Austria, Hungary, Germany, Ireland, Netherlands and elsewhere have set higher transaction limits for tap-and-go payments. Examples of non-card-based contactless transactions include digital wallets and smartphone-based payment interfaces (like Google Pay, Amazon Pay, Android Pay and Due). They can be used for making payment at shops (that often require scanning of QR codes from a distance), transferring money to near and dear ones and doing recharges, all with just a smartphone in hand.

To overcome the problems of Physical Currency, the people of the Country use the following alternatives i.e.,

⇒ Online banking, also known as Net Banking, is another option that does not require handling of any cash or card and allows transaction of large amounts at a time.

Use the CBDC (Central Bank Digital Currency) which was launched by the Reserve Bank of India on 1st November, 2022 (e-₹ Wholesale) and 1st December, 2022 (e-₹ Retail).

# SMEs, SUSTAINABILITY AND SUSTAINABLE DEVELOPMENT

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Small and medium-sized enterprises (SMEs) play a key role in the economies of all the countries in the world by their contribution to the national economic growth and employment. Nowadays, in a complex, competitive and volatile business environment, the adoption of Sustainability principles is of utmost importance for a steady and sustainable growth of the small and medium-sized enterprises and to a large extent their survival depends on it. Yet, the relationship between the SMEs and Sustainability is mutually interdependent and the success of Sustainability agenda is very much conditioned by SMEs while the growth of SMEs cannot be achieved without the integration of Sustainability principles into their business strategies. SMEs contribute greatly to job creation and overall economic growth. In developing economies, SMEs contribute up to 45% of total employment and 33% of GDP. Therefore, it is paramount for SMEs to contribute both socially and environmentally and maintain financial profitability as this has slowly turned into a focal point for businesses or it can be said that these facts clearly indicate that the role of SMEs in Sustainability is of tremendous importance and prove that the relationship between SMEs and Sustainability is irrevocably tied.

Sustainability disclosure and reporting play an important role to help MSMEs and investors to reduce risks across their supply chain and enable an efficient decision-making process, toward greening MSMEs as well as lending institutions. Understanding and awareness about ESG is gaining momentum in MSMEs and it is relevant in view of changing scenario related to climate aspects, ESG related compliances will emerge essential in coming days and a must compliance to remain competitive in global world. There is no doubt that SMEs have the potential to become the foundation of the domestic and global Sustainability agenda. But SMEs struggle to identify how they could use Sustainability as a force for growth and adapt to megatrends such as increased globalisation, digitalisation, the new industrial revolution, the changing nature of work and demographic changes. A measurable focus on social and environmental sustainability by the SMEs offers multiple value-creating routes for addressing SMEs' highest-ranked challenges, such as growth and expansion, talent acquisition and retention, as well as funding and access to finance. It also offers them an opportunity to gain reputational benefits as champions of sustainable strategies. This is not only key to the survival and success of individual companies, but also key for our collective capacity as a society to successfully shape the nature of growth, innovation and sustainability of our global, regional and local economies.

The concept of sustainability will enhance SMEs' transformation in operating and ensuring their services or products minimise their impacts on the environment and social elements. Technology will enable SMEs to develop innovative ways of producing various products and services while allowing their customers to become more environmentally and socially friendly in meeting their sustainability ambitions. This, too, enables the SMEs to develop a sustainable competitive advantage while at the same time enabling the SMEs to sustainably reduce their carbon footprint in their operations. Sustainability helps create value for stakeholders who do not just want strong financial performance but also demand businesses to be socially responsible, ethical and environmentally sustainable. The SMEs need to capitalize on sustainability to help introduce and enforce codes of conduct and policies on issues such as human rights and relationships with local communities and how to report on environmental, social and governance (ESG) performances. Customers are also now a days increasingly becoming sustainability aware and are opting to buy from sustainable companies. This signals producers to transition to sustainable production models to attract more customers.

In terms of corporate sustainability, Epstein (2008) mentions nine principles of sustainability to be observed and followed by the corporates. These principles are mentioned below –

1. Ethics: A Company always tries to promote, observe and preserve the moral values and practices while businesses with stakeholders.
2. Governance: A firm or Company run all its capitals diligently and effectively. It attracts the interest of all stakeholders through the efficient work of managers and corporate boards.
3. Transparency: A company always disclose the information of product and service within a fixed time.
4. Business Relationships: A company works for the best trading practices with partners, distributors and suppliers.
5. Financial Return: Company compensates providers of capital with a competitive return on investment and the protection of company assets.
6. Economic Development: Company fosters a mutually beneficial relationship between the corporation and community in which it is sensitive to the culture, context and the needs of the community.
7. Value of Production and Services: A firm or company always tried to give the best product and services to its customers within their needs and choices.
8. Employment Practices: A firm or a company always do human resource management practices which develop the employee personal and professional life.
9. Protection of Environment: A firm endeavours to safeguard and renovate the environment and endorse sustainable development in product and service.

Thus, to pursue sustainability a corporate needs to take care of the interests of all the stakeholders. In fact, sustainability is de facto becoming the next wave of good management, in the sense that "it can drive innovation, operational efficiency, risk mitigation, and employee engagement". It is therefore important to see sustainability as a management approach for long-term success rather than a compliance issue.

Govt. of India has made several commitments. The new initiative of the government of India "Make in India" (Zero Defect & Zero Effect) was an important step to balance sustainable economic growth. While large enterprises have access to resources and knowledge, it is the micro, small and medium enterprises and businesses that together contribute to almost half of the manufacturing output and a major number of employment opportunities, which requires the most attention. To help such MSMEs to adopt new and green technologies, the government has been advocating numerous schemes and policies, which can help these businesses to adopt and up-scale their businesses without damaging the environment. The Ministry of MSME and many other organizations and trade bodies have been assisting MSMEs to take benefits of schemes such as Technology Upgradation and Quality Certification's ZED Certification Scheme, A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE), Credit Linked Capital Subsidy for Technology Upgradation (CLCSS), and Design Clinic for Design Expertise to MSMEs, among many other schemes. MSME significantly contributes to the economic and social development of Indian economy by fostering entrepreneurship development, employment generation and –

- Reduction in Poverty
- Zero Hunger
- Job creation
- Gender Equality
- Reduction in Inequality
- Innovation and Infrastructure
- Decent Environment for Work
- Promote Production

India has committed to reducing the emissions intensity of its GDP by 45 per cent by 2030, from the 2005 level. The role of SMEs assumes significance here as the MSME sector contributes nearly 30 per cent to India's GDP. According to a survey of more than 800 SMEs across key Asian markets viz., Singapore, Hong Kong, India, Indonesia, and Mainland China, it is found that nearly 9 in 10 SMEs in India rated environmental, social and governance (ESG) measures as high priority for their business, higher than their regional counterparts. 92 per cent of SMEs believed that environmental issues concerning pollution monitoring, climate change, carbon footprint, and depletion of natural resources are top priorities directly impacting their businesses. Also, 81 per cent considered government schemes or financial institutions' incentives as the second most crucial factor influencing ESG adoption.

MSMEs *develop economies at the local level* – especially providing job and livelihood opportunity to the lower economic strata of the society. MSMEs also bring *value addition* at the local level, unlike big businesses, where most of the value addition is at the end of the value chain; thus building the value of shared prosperity in practice; and enabler to address inequities. In this way, MSMEs directly contribute to various socio economic SDGs like SDG 1 (No poverty), SDG 8 (Jobs and growth), and SDG 10 (Reduce inequalities). By developing basic needs service delivery models in rural areas, MSMEs have the potential to contribute to SDG 6 (Water for all), SDG 7 (Energy for all), amongst others. Micro, small and medium enterprises (MSMEs) have demonstrated considerable strength and resilience in maintaining a consistent rate of growth and employment generation during the global recession and economic slowdown. *Clusters of small businesses* build more diverse economic model versus big businesses. This is critical in building resilience of the system.

*Environmentally conscious MSMEs ensure green and inclusive economic development.* SMEs are usually depended on the *locally endowed natural resources* and are therefore environmentally conscious. The ownership of the natural resources is high in local green enterprises; as the communities are dependent on the resource for their sustenance and livelihood. So, the design of the MSMEs impacts various ecological SDGs – SDG 13 (Combat climate change), SDG 14 (Water ecosystems) and SDG 15 (Terrestrial ecosystems). Various innovations in MSMEs can show the path to achieve SDG 12 (Sustainable Consumption and Production). Rising waste generation is one of major environmental and social concern. Some MSMEs have seen this as an economic opportunity.

However, ESG adoption was reported to have some challenges. For 57 per cent of SMEs, the cost of deployment of ESG initiatives coupled with assessments of return on ESG investments was an issue while for 87 per cent, the lack of knowledge about how to measure the success of their ESG projects was a problem. How to implement ESG frameworks and solutions was a problem for 81 per cent of SMEs while failing to ensure compliance and policies and lack of funding were also areas of concern for 75 per cent and 60 per cent of SMEs respectively. Despite of roadblocks MSMEs/SMEs strive for a sustainable growth and achieving Sustainability Development Goals.

# CBDC - A REVOLUTIONARY PHASE FOR BANKING SECTOR

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## Why CBDC?

Central banks are rolling up their sleeves and familiarizing themselves with the bits and bytes of *digital* money. We know that the move towards CBDCs is gaining momentum, driven by the ingenuity of Central Banks. Around **100 countries** are exploring CBDCs at one level or another. Some researching, some testing, and a few already distributing CBDC to the public. (Kristalina Georgieva, 2022)

The most talked of crypto currencies lack intrinsic value and are question to fluctuations, with decentralized networks with no central authority, with irreversible transactions. No legislation to regulate virtual currency. A Committee was instituted [on 2nd November2017] concerning matters connected to virtual currencies. The report conveyed the notion of Central Bank Digital Currency issued by the government and regulated by Reserve Bank of India.

Then finance Minister Arun Jaitley, in his budget speech "*The Government will explore use of block chain technology proactively for ushering in digital economy*."

This was followed up by the RBI in its April 2018 monetary policy meeting. Advocating the distributed ledger technology (DLT) as a significant instrument of prospective economic transformations.

## What is CBDC?

Innovation of CBDC is in simple terminology is ***centralization of virtual currency.***

**Approximately 90 part** of the world's central banks are pursuing central bank digital currency (CBDC) .Some for example United States and South Africa, are at the exploratory phase; others are in developing phase, most CBDC creativities today remain in the embryonic junctures of market expansion and even in progress of its technical design. However, alongside the theoretically similar but quite different digital coins being issued by private entities, this form of digitally issued public money stands at the forefront of central bank innovation in the monetary space. (Olivier DeneckerArnaud d'Estienne, 2022).

It is sovereign currency issued by Central Banks in alignment with their monetary policy, as a liability on the central bank's balance sheet. It is embedded with features of money.

## Two sides of CBDC

There are two sides of coin. One is brighter side and another is not -brighter side.

**Brighter side:**

- There is drop in cost connected with physical currency administration. CBDC moderates operative costs i.e. costs linked to printing, storing, conveyance and substitute of banknotes, and costs associated with deferral in understanding and settlement. Though, at first, launching a CBDC creation/issuance may require substantial fixed infrastructure costs but successive marginal effective costs intend to be very low. The potential cost savings in the US alone amount to $750 billion a year, as much as the country's households spend on food. (Mookerjee, 2021)
- CBDC could enrich suppleness in outflows and offer basic payment facilities outdoor of the commercial banking organism. It delivers a new approach to make payments and also vary the array of payment opportunities. The CBDC will add-on more payment options to the public and hale and hearty competition help multi perspective efficiencies.
- CBDCs could surge modernization in international flows, via instantaneous dealings and overcome key glitches connecting to time zone, exchange rate alterations, lawful and governing necessities across

powers. The inter-operability of CBDCs could pull down cross-currency risk and friction.

- Universal access traits of a CBDC, and compatibility across multiple devices, may be a game changer by cultivating the overall resilient system for achieving the set goals of wider coverage of financial inclusion.
- CBDCs could also create new revenue opportunities for banks. Banks could offer value-added services related to CBDCs, such as digital wallets, and other financial services. Banks could also potentially earn revenue from fees charged for CBDC transactions.

**Not -Brighter side; let's say challenging aspects**

- CBDCs could potentially introduce new risks for banks, such as cyber security risks and the risk of bank runs in the event of a financial crisis. Banks would need to develop new risk management strategies to address these risks.
- CBDCs could potentially reduce the need for traditional banks as intermediaries for financial transactions. Individuals and businesses could hold and transfer CBDCs directly, without the need for bank accounts or third-party payment processors.
- Privacy of the people in their transactions is at stake. "Central banks increase control over money issuance and gain insight into how people spend their money but deprive users of their privacy," notes Congressman Tom Emmer (R-MN), adding, "CBDCs would only be beneficial if they are open, permission less and private." (Mookerjee, 2021)

**Pilot Entry of CBDC**


The Finance Minister stated that the RBI has launched pilots of CBDC in both Wholesale and Retail segments.

The pilot in wholesale subdivision, known as the Digital Rupee -Wholesale (e₹-W), was pitched on November 1, 2022, with use case being limited to the settlement of secondary market dealings in government securities.

The pilot in retail segment, known as digital Rupee-Retail (e₹-R), was pitched on December 01, 2022, within a closed user group (CUG) covering contributing customers and merchants. CBDC pilot launched by the RBI in retail fragment has constituents grounded on block chain tools.

The RBI has recognized eight banks for phase-wise contribution in the retail pilot project. The first stage embraces **four** banks, namely the **State Bank of India**, the **ICICI Bank, the Yes Bank and the IDFC First Bank**. Subsequently, another four banks, viz., the Bank of Baroda, the Union Bank of India, the HDFC Bank and the Kotak Mahindra Bank will participate in the retail pilot.

On the other steps being taken by RBI for full operationalization of CBDC include expanding the scope of the pilots gradually to include more bank, users and locations based on feedback received during the pilots, the Minister stated. (Bureau, 2022)

"Yesterday, we launched the trial of Central Bank Digital Currency (CBDC) project... **It'll be a landmark achievement as far as the functioning of the entire economy is concerned. Reserve Bank is among the very few central banks in the world which have taken this initiative"**, the RBI governor was quoted as saying by ANI. (Prakash, 2022).

**Banking sector – Will it be revolunised? Of course 'YES'**

As we peep into the history of Indian Banking sector, prior to 1991, it was a sector of NO CHANGE. After 1991 the sector has become the MOST DYNAMIC one. Its revolutionary impact is experienced by very common man of INDIA. Pandemic has added fuel to it.

- Launching of CBDC, is another milestone in the upcoming Banking Revolution. Number of questions are striking the mind.
- What changes are expected in the working mechanism of banks?
- What would be extent of Artificial Intelligence Use and associated training programmes?
- How easy would it be for merchants and retailers?
- Would people adopt its use, being user friendly?
- Would it boost 'ease of doing business'?
- How does it going to impact 'Online Payment Applications'?

Inquisitiveness to above and such similar quarries, we could observe and experience after some time in near future. It is the area for further studies and research. Our expectations are, that the very expected goals of CBDC are reached and the economy smoothly moves on the path of desired goals.

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# INDEX FUND

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Most of the mutual funds are conducting Investor Awareness Programs since last 10-12 years on continuous basis all throughout the country, resultantly common investor is now considering mutual fund as preferred investment option. However still there is confusion which scheme should be selected that gives market return and comparatively carries less risk than other equity schemes offered by mutual fund. Index Fund is one such option which will match to your expectations. But very few people are aware of this option and its intricacies.

## What is Index Fund?

Index Fund is one of the equity investment schemes of Mutual Fund and funds collected under this scheme are invested in the stocks of chosen index such as Nifty-50 or Sensex-30 or any such index which imitates the portfolio of the chosen index. The index fund is the passively managed fund as the main objective of index funds is to track and emulate the performance of chosen index such as BSE Sensex or NSE Nifty 50. The investment in individual stock will be as per the weightage of particular stock in the chosen index.

## How index Fund works?

As seen above Index Fund copies the underlying Index such as NSE-50 or SENSEX-30 which ever chosen by the respective Index fund. Suppose the particular Index mutual fund is having NIFTY-50 as underlying index then since individual weightage of Reliance, HDFC Bank, Infosys, TCS & L & T in NIFTY-50 is 10.41%,9.06%,7.20%, 4.41%and 3.34% respectively then this Index fund will invest in these stocks with % equivalent to their weightage in NIFTY-50 and in remaining 45 stocks in % equivalent to their weightage in NIFTY-50. Hence here in this case the returns offered by index funds are almost equivalent to return given by NIFTY-50. However, there may be a little difference between return of this index fund and that of NIFTY-50. This is known as the tracking error and fund manager is expected to keep the tracking error to the minimum possible extent.

Index Fund Vs Actively Managed Fund:

| | **Index Fund** | **Actively Managed Fund** |
|---|---|---|
| Investment Objective | To deliver the returns almost equal to underlined index return | Beats the returns of the benchmark index |
| Invested securities | Securities which are only in underlined index | No such restrictions, fund manager is free to choose the securities within the given mandate |
| Fund management | Passive fund management | Active fund management |
| Expense Ratio | Between 0.20 % to 0.50% | Between 1% to 2% |

Since the index fund managers are replicating the performance of a benchmark index, the cost of fund management is quite low compared to actively managed funds, this is because there are quite less trade transactions which reduces the brokerage cost, so also no need of research and analysis so the cost towards is almost negligible as against actively managed fund required to pay transaction charges along with along with other charges. These extra costs get reflected in fund expenses ratio which are finally borne by the investor only.

Advantages and disadvantages of investing in Index funds

Advantages:

- Low expense ratio
- Well diversified investment
- Return almost equal to underlined index return
- Less risky compared to actively managed funds
- Best suited for passive investor with long term goals
- Broad market exposure
- No bias investment since fund manager has hardly any role to play
- Easy to manage.

Disadvantages:

- Having market risk
- Likely less return than actively managed funds
- No flexibility
- Expertise of fund manager is hardly of any use.

### Who should invest in Index Fund?

One should invest according to his investment time horizon, goals, and risk appetite. Index funds are best suited for those investors who are prepared to take market risk but not on any particular sector/stock/actively managed mutual fund scheme. Index funds do not require extensive research and tracking/rebalancing. One who wants to make provision for long term goals such as kid's education/ Retirement planning investment in index fund is most suitable one.

### Index fund and Index ETF:

Both the index fund and the index ETF will essentially mirror/ replicate an index. index can be the Nifty, Sensex or any other index that you choose. The basic concept of investment in both is same. Both are expected to give nearly equivalent return that of underlined index. However, there is major difference between these two as following.

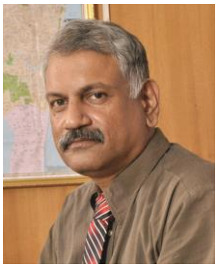
An index fund is typically a mutual fund scheme and one has to invest through any of the mutual funds whereas an Index ETF is composed of fractional shares of the index which creates the portfolio of index stock to replicate the index. Once the portfolio is created Index ETF does not accept fresh investment or redemption. However, it is mandatory to list index ETF on stock exchange, hence it is more liquid than index mutual fund. As such one can buy or sell the same on exchange through broker any time during market hours at market price. whereas index mutual fund purchase or redemption is as per at end of the day NAV. NAV is the Net Asset Value is which is based on the market value of all stocks adjusted for the total expense ratio on daily basis.

Top Five Index Funds in India:

| Sr no | Name of the fund | AUM (in crores) | 5 Year return % | Expense ratio % |
|---|---|---|---|---|
| 1 | Nippon India Index (Sensex) | 367 | 13.6 | 0.15 |
| 2 | ICICI Prudential Index(Sensex) | 664 | 13.41 | 0.16 |
| 3 | DSP Index( Nifty-50) | 503 | 10.93 | 0.40 |
| 4 | IDFC Index(Nifty-50) | 635 | 12.70 | 0.10 |
| 5 | UTI Index (Nifty-50) | 9376 | 12.57 | 0.21 |

From the above table one can see that even passive investment gives you return around 12% with holding period of five years, or more which is much better than bank and other investment options. Hence it is better option to invest in index funds for those who are aware of market risk.

# THE THRUST FOR INSTITUTIONAL ARBITRATION



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These are times when the judiciary and the government appear to be at odds with each other on various issues. It is almost like a border dispute with both sides testing the line periodically. But in all this, there is one subject on which both appear to be on the same page and working in tandem. That subject is how to make arbitration and mediation more effective and popular.

The Union law minister, Kiran Rijiju, spoke at the Delhi Arbitration Weekend organised by the Delhi International Arbitration Centre on 19th February. He said if Singapore can become an International Arbitration Hub, why cannot India? The aim is to encourage arbitration for smaller, contractual disputes, especially where parties are small or medium-scale business owners. He mentioned that uniform rules as well as the backing of both judiciary and executive would be required to make India an international arbitration hub,

Justice Sanjay Kishan Kaul, Judge of the Supreme Court, said that Indian courts are strictly adhering to the principles of non-interference with the arbitral awards. He also added that parties to the arbitration must learn to accept the awards and avoid multi-tiered litigation just to complete the formality. He stated that the Supreme Court has upheld the principle of autonomy of parties to the arbitration. Adding further, he said that the Supreme Court should entertain an appeal only with a view to settling the law if some unique point is raised before it, a point which has not been answered by the Supreme Court earlier.

There was a news report which underlines the point as to how serious the Courts are to persuade litigants to adopt the arbitration route. In a case involving Vedanta and Corex (UK), the SC has sought response from Vedanta, as to why an arbitrator be not appointed to resolve the dispute related to a combined $ 5 billion contract that the resources Conglomerate Vedanta had executed with Corex (UK) in 2018. This is a classic example of how the highest court in India is nudging the disputing parties to go in for arbitration, even for such a high-value case rather than adopt the normal legal route. There have been many judgements from the Supreme Court as well as High Courts which gave an indication of the thinking of the higher judiciary regarding the use of arbitration for dispute settlement.

The question that will immediately arise, is what is the cause for both the Government and the Judiciary, pushing for making the process of arbitration, simpler, definite, and also trying to popularise it. The answer is very simple. The judiciary in India is groaning under the weight Of numerous cases. Justice gets delayed. For specific areas, special tribunals and courts have been set up so that they can concentrate and dispose of cases without them clogging the Courts. Take for instance, the Consumers Forum, or tribunals like SAT or MCD for motor accidents. These have been constituted specifically with the objective to direct cases relating to specific subjects to be handled by such tribunals. But even they are now facing the pressure with cases flooding them on a daily basis.

How does arbitration help? The concept of arbitration is that the parties to the dispute agree to go in for arbitration. Thus, it starts on a positive note. The agreement could be in the way of being a part of the contract or could be a document separate from the contract. Such an agreement could be created at any time during the course of the contract. It could also come into being after the dispute has arisen. In other words, in terms of time, it could be before or after the dispute has arisen. The second important aspect of arbitration is that the parties to the dispute can choose their arbitrator. If the disputing parties agree, it could be a sole arbitrator. There is also provision for one or more arbitrators to be appointed by each of the parties. In such an event the nominated arbitrators would discuss and appoint a principal arbitrator. The arbitral tribunal would therefore be always having members with odd number. It may be interesting to note that the dispute between Reliance and Amazon was heard by a single arbitrator who also gave an interim award. The value of the dispute involved was about 23,000 crores.

Another advantage is that the whole process can be faster than the regular judicial process. The emphasis of the government also is to try and introduce some time limits for this process to be completed. Yet another advantage is the near finality of the arbitral awards as the law has now become more and more strict and very few avenues are there for further appeal once an award is given. Since the whole process would be conducted expeditiously, the overall cost for the disputing parties may turn out to be lower than if they were to go through the regular methods of approaching the Courts . Many of the disputes would relate to areas where specialised knowledge of the field may be required. While there is provision for experts to be appointed wherever required, but it would always be better if the arbitrators themselves have an idea about the intricacies of the area In which disputes have arisen. Very often in addition to the contractual terms and obligations certain market practises also come into play and these are issues which would be better appreciated by a person who is aware of the subject. These are all undoubtedly positive reasons for arbitrations to be used extensively and effectively.

Lord Mustill, talking about the relationship between the Court and arbitration said it was similar to a relay race.
"Ideally, the handling of arbitral disputes should resemble a relay race. In the initial stages, before the arbitrators are seized of the dispute, the baton is in the grasp of the court; for at that stage there is no other organisation which could take steps to prevent the arbitration agreement from being ineffectual. When the arbitrators take charge, they take over the baton and retain it until they have made an award. At this point, having no longer a function to fulfil, the arbitrator's hand back the baton so that the court can, in case of need, lend its coercive powers to the enforcement of the award."

The question now arises as to why the government and the judiciary or pushing for it. The reason is simple. The Court's are burdened with a large number of cases to be decided upon. They range from the issues which could be as simple as a traffic violation to criminal cases or even interpretation of the Constitution. In addition the procedures involved are complicated and though every effort has been made by the judiciary to push clearance of pending cases, it is finding it to be an uphill task. The whole system is creaking at all the joints and there is a lot of delay once the matter goes to.Court . As the saying goes, "Justice delayed is Justice denied". Hence, the interest shown to find out alternate ways of handling disputes. Arbitrations have attracted attention and is felt to be a good method of ensuring a quick and amicable settlement of disputes.

There are two forms of arbitrations. One is the traditional method which is also commonly known as the ad-hoc form of arbitrations. This envisages the parties to the dispute appointing by consensus, a person as the sole arbitrator or if they are unable to agree to one person then they would each appoint one or more persons as arbitrators. Normally because of the expense involved only one person is nominated by each of the disputing parties and they in turn would appoint a third person who would be known as the principal arbitrator. Every such arbitral tribunal would have arbitrators in odd numbers. The reason is quite simple. If there is disagreement, then the view of the majority would prevail. Hence The appointment of arbitrators in the tribunals with odd numbers.

The other method is called Institutional arbitration. There are centres set up for arbitrations. They have panels of arbitrators who could be used by disputing parties. The parties could either choose their arbitrators from the panels or allow the institution to nominate the arbitrator. These institutions scrutinise the profiles of the persons who apply to be on their panels and therefore, expected to be persons of competence, integrity, and neutral in their approach.. Being on the panel lends weightage to the panellists credibility.

Some of the prominent arbitral centres are:

- The London Court of International Arbitration (LCIA),
- The Chartered Institute of Arbitrators UK,
- The National Arbitration Forum USA
- The International Court of Arbitration Paris
- Singapore International Arbitration Centre,
- Hong Kong International Arbitration Centre (HKIAC).

There are of course many more institutions. As can be seen, Singapore, Hong Kong, Paris, et cetera have emerged as major centres, in addition to of course, some of those in the UK and the USA.

Some of the perceived advantages of institutional arbitration is that the institution handles all the operational matters with regard to the arbitration if it so desired. They have a select panel of arbitrators whose entry is scrutinised by the institution and admitted after they were found fit. The disputing parties have the option of choosing from the panel of arbitrators, or they could ask the institution themselves to select a suitable person from their panel for engaging in the process as an arbitrator. Most of them have detailed and set procedures where a good amount of flexibility is also built in. These institutions also provide the infrastructure for the conduct of the arbitration like provision of rooms, secretarial service, drafting, et cetera. The fee structure to the arbitrator is also often set and the disputing parties can go by it. The panel also has, most often persons from diverse professions and occupations. Hence, the disputing parties can have the comfort of drawing from the list a person who has the requisite technical knowledge of that subject.

In India, the use of institutional arbitration has not got much traction so far, though it’s usage is on the rise . Ad-hoc arbitration continues to be the preferred mode of arbitration. A study by PwC in the recent past of corporates revealed that about 47% of the total respondents preferred ad-hoc arbitration over institutional arbitration (40%) while 12% remained neutral. Asked about why arbitration was preferred adopted as a means of dispute redressal, the respondents listed speed, flexibility and confidentiality as the three major reasons.

The possible reasons for institutional arbitrations not gaining the traction they could, considering their supposed advantages, could be that there is perhaps a lack of knowledge of the institutions. There could also be inadequate understanding of their working. Further there could be a fear that institutional arbitrations could be expensive and would be costlier than ad-hoc arbitrations. Apprehensions would also be there that the procedures adopted would be rigid and inflexible. Even with regard to appointment of arbitrators, there may be greater comfort found by the parties appointing persons in whom they have confidence rather than appointing persons from a panel about whom they have little knowledge.

Whatever be the case, the thrust for making India, a major seat for arbitration is very clear from the actions of the government and the judiciary. The law has been amended many times to make it more acceptable internationally. For instance, earlier, there was a schedule which prescribed the qualifications for an arbitrator. They were quite wide of course, but then they did not permit international arbitrators or lawyers to function in India. To ease the path, the act was amended and the qualifications portion was deleted. Recently the Bar Council has also changed its norms and has permitted foreign lawyers to practise in India in the Courts and also act as arbitrators. While it may take a little time, the direction of the thrust is quite clear and institutional arbitration would be playing a major role in future in India and India could also emerge as a major hub for arbitration internationally.

# MSME GROWTH BOOSTER STRATEGY – ONE DISTRICT, ONE PRODUCT (ODOP)

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In the late 1950s, Japanese villages experienced youth out-migration to high-income cities due to unprofitable rice cultivation and the absence of alternative of sources of income.

To contain this, the then Mayor of Oyama Town started a New Plum and Chestnut (NPC) strategy and later this movement was transformed into Neo Personality Combination in 1965 and New Paradise Community in 1969. It became "One Village One Product (OVOP)" in 1979 and was further expanded to other rural areas of Japan.

The core principles that guided OVOP were to **think locally, act globally**, to be self-reliant and creative through capacity building of human resources.

This model was later emulated by a few other countries with different nomenclature.

- ✓ One Commune One Product (Vietnam).
- ✓ One Tambon One Product (Thailand).
- ✓ One Town One Product (the Philippines).
- ✓ One Mahalla One Product (Uzbekistan).
- ✓ One Island One Product (Oceania) and
- ✓ Our Village Our Pride (Afghanistan) with varying levels of success.

While it started as a movement in Japan, in Thailand it was a policy initiative that focused on **Capacity Building** in human resources at grassroots levels through community development.

In the Philippines too, it was a government-led programme that supported Micros, Small and Medium Enterprises that focused on entrepreneurship, public-private partnerships through the rediscovery of indigenous products and regional pride. This also included services and hospitality that highlighted traditional history and culture.

India is one of the mega biodiverse country with 3,287,263 sq. km geographical area. There are different kinds of terrains, crops, foods, climate, etc., with diverse community traditions and economic pursuits. People in various regions of the country possess unique skills and expertise in

- ✓ Agriculture.
- ✓ Handicrafts.
- ✓ Jewelleries.
- ✓ Textiles and
- ✓ Other related products evolved through several generations.

These skills are often connected with traditions, practices and culture, which employ traditional methods, practices and knowledge to produce the goods associated with particular geographic area.

ONE DISTRICT ONE PRODUCT

The 'One District, One Product' (ODOP) was launched by the Ministry of Food Processing Industries, to help districts reach their full potential, foster economic and socio-cultural growth, and create employment opportunities, especially, in rural areas. It aims to do this by identifying, promoting and branding a product from one district.

The One District One Product scheme aims to turn every district in India, into an export hub through promotion of the product in which the district specialises. The initiative plans to accomplish this by scaling manufacturing, supporting local businesses, finding potential foreign customers and so on, thus helping to achieve the '**Atmanirbhar Bharat**' Vision of Government of India.

The one district one product launch date is January 24, 2018, by the Uttar Pradesh Government, and due to its success, was later adopted by the Central Government. This initiative is carried out with the 'Districts as Exports Hub' initiative by the Directorate General of Foreign Trade (DGFT), Department of Commerce. The Department for Promotion of Industry and Internal Trade is an important stakeholder. In the scheme, the ODOP product is identified by the state for a district.

**The criteria for ODOP Identification are given below**:

- Percentage of ODOP produce relative to total agricultural produce of the district.
- Perishable nature.
- ODOP presence in the district relative to other districts.
- Recognisability of the district with the ODOP product.
- Processing level for ODOP in that district, other districts and states.
- Number of workers engaged in ODOP production and processing.
- Marketing linkages.
- ODOP processing infrastructure in the district.

**Advantages of the One District One Product (ODOP) Initiative**:

- Numerous Micro-enterprises will benefit through access to information, better exposure to the market, and formalization.
- It will enable them to formalize, grow and become competitive in national and global space.
- The project is likely to generate valuable skilled and semi-skilled jobs.
- The scheme envisages increased access to credit by existing micro food processing entrepreneurs, women entrepreneurs, and entrepreneurs in the Aspirational Districts.
- There will be better integration with organized markets, boosting the artisans and local vendors.
- Increased access to common services like sorting, grading, processing, packaging, storage, etc. will be added advantage.

ODOP initiative is operationally **merged** with 'Districts as Export Hub (DEH)' initiative of the DGFT, Department of Commerce, with the Department for Promotion of Industry and Internal Trade (DPIIT) as a major stakeholder, Minister of State for Commerce and Industry, Shri Som Parkash said in reply to a parliament question today.


One District One Product (ODOP) in all States/UTs of the country, as a transformational step towards realizing the true potential of a district, fuelling economic growth, generating employment and rural entrepreneurship, taking us to the Goal of Aatmanirbhar Bharat. The ODOP Initiative is aimed at fostering balanced Regional Development across all Districts of the country, enabling holistic socio-economic growth across all regions.

The objective is to focus on District of the country as unit for converting into a manufacturing and export hub by identifying products with export potential in the District. The Department is engaging with State and Central Government agencies to promote the initiative of ODOP, which is an on-going process.

Districts Export Action Plans include specific actions required to support local exporters / manufacturers in producing / manufacturing identified products in adequate quantity and with the requisite quality, for reaching potential buyers outside India, thereby creating economic value. These plans also include identifying and addressing challenges for exports of such identified products/services, improving supply chains, market accessibility and handholding for increasing exports, paving way for employment generation.

**The following are some of the achievements of ODOP of Government of India:**

a. The ODOP GeM Bazaar was launched on the Government e-Marketplace (GeM) on 29th August 2022 with over **200 product categories** created on the platform to promote sales and procurement of ODOP products across the country.

b. ODOP products are showcased in various International forums such as World Economic Forum, DAVOS in May 2022, at International Yoga Day (IYD) in New York, US in June 2022 etc.

c. The ODOP initiative has been identified for the prestigious Prime Minister's Award for Excellence in Public Administration in Holistic Development through One District One Product (ODOP) category in April, 2022.

**Under Districts as Export Hub (DEH):**

State Export Promotion Committee (SEPC) and District Export Promotion Committee (DEPC) has been constituted in all the 36, States/UTs.

- ✓ Products/services with export potential have been identified in 734 Districts across the country (Including Agricultural & Toy clusters and GI products in these Districts);
- ✓ State Export Strategy has been prepared in 28 States/UTs;
- ✓ Under DEH, State Nodal officers are nominated in 34 States/UTs;
- ✓ DEPC meetings has already been conducted in 681 Districts;
- ✓ Draft District Action Plan has been prepared for 570 Districts;
- ✓ A web portal to monitor the progress of District Export Action Plan in all the Districts has been developed by DGFT.

**Benefits to Districts:**

**Capital Investment**: Existing micro-enterprises would be supported through capital investment. Enterprises producing ODOP products are given preference. New units, on the other hand, would be supported for ODOP products only

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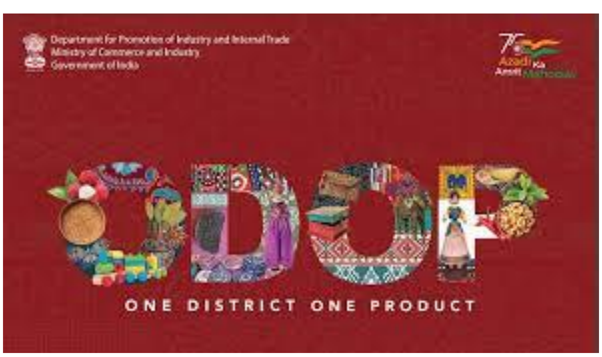


**Marketing and Branding**: Marketing and branding infrastructure support is provided. If marketing and branding are being conducted at the state or regional level, other products would also be supported.

**Subsidy**: Under the Pradhan Mantri Formalisation of Micro Food Processing Enterprises (PMFME) Scheme with the ODOP approach, a credit-linked capital subsidy comprising 35% of the eligible project cost, up to ₹ 10 lakh (US$ 13,379.7) may be provided. The beneficiary may need to contribute at least 10% of the amount and the balance as a bank loan.

**Credit-Linked Grant**: A credit-linked grant of 35% would be provided to support groups such as self-help groups (SHGs), Producer Co-operatives, etc. in their operations such as sorting, grading, storage, packaging, processing and so on.

**Seed Capital**: Seed capital is provided at ₹ 40,000 (US$ 535.2) per SHG member involved in food processing. The capital is to be utilised for working capital and buying small tools.

**Branding and Marketing**: Branding and marketing support is provided through grants of up to 50% of total expenditure, for the state or regional level ODOP product, to SHGs, co-operatives, etc. Branding and marketing are crucial for the growth of Micro Small and Medium Enterprises (MSME).

**Training**: Training is provided with a focus on entrepreneurship development, operations, marketing, accounting, FSSAI standards, GST registration, Udyog Aadhaar, Geographical Indication (GI) registration and so on. Furthermore, training specifically designed for ODOP products is provided such as on hygiene, storage, packaging and development of new products. Such training helps the entrepreneurs conduct business operations efficiently as well as improve the quality of products.

## Conclusion:

The ODOP initiative has significant potential given its aim to achieve a district's true potential by utilising economies of scale, product specialisation through identification and promotion through marketing, MSME growth and creation of employment opportunities.

Furthermore, ODOP is raising awareness of the importance of Geographical Indication (GI). The training provided to entrepreneurs are helping them conduct operations efficiently, resulting in several success stories, especially among MSMEs. The broader trend can be seen through the growing share of Gross Value Added (GVA) by MSMEs to Indian GDP.

The ODOP initiative is trying to raise awareness of ODOP products as well as their benefits of buying them, in domestic and international markets. Thus, the scheme offers an opportunity to strengthen local products having health, environmental or other benefits. This will help enable India to become a stronger economy and fulfil the **Prime Minister's Atmanirbhar Bharat vision**.

# SECURITISATION: A PREMIER

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## Introduction

Is it possible for an entity having a credit rating **A** to originate **AAA** rated securities? Is it possible to convert non-tradable financial assets into securities which can be issued to investors and traded on capital market? Answer in both the cases is yes. The magic is "securitisation". If one is grappling with a dozen of oranges whose juice was tested sour and not acceptable to customer what would be the way out ? The juice may be sweetened adding some sweetener! If the sourness is taken to be analogous to the perceived risk the sweetener is credit enhancement in the realm of securitisation. When some entity assures that in the event of default by the obligor ,originator or issuer the loss to the investors up to a given extent would be borne by it , the credit quality of the underlying securities get enhanced. "Securitisation" (also referred to as Asset securitisation) is the process of creating securities by a special purpose Vehicle (SPV) and issued to investors. Securities are serviced for payment of interest and principal out of the cash flows emanating from a pool of financial assets held by the SPV.

Let us take for example the case of a bank having a big pool of 25000 homogenous housing loans. This loan pool has average maturity of 20 years ( say). There would be regular cash flow out of the pool by way of payment of EMIs by the obligors. These loans are otherwise destined to stick to bank's book for about 20 years till full repayment of principals and accrued interest. Securitisation process can facilitate transferring this pool of assets to an SVP effecting a true sale. The SVP in turn may issue securities to be serviced by the pool cash flows, to the investors and the consideration received by the SPV from the investor therefor may be passed on to the loan originator bank. In the process the originating bank can derecognise the loan assets and free up funds and capital for opportune investments, provided prescribed regulatory conditions and host legal covenants attached to the process are complied with. Whole process is orchestrated by a host of specific activities of each of the several parties involved in the process.

### Securitisation: Definition

Securitisation is a framework wherein pool of illiquid assets of an entity are converted into a package of securities collateralised by these assets through careful packaging ,credit enhancements, liquidity enhancement and structuring. Payments to the investors depend upon the performance of the specified underlying exposures, not out of the obligation of the originator of those exposures. The underlying assets mainly are secured loans viz., housing loans auto loans, commercial vehicle loans, construction equipment loans, two-wheeler loans, and unsecured loans e.g., personal loans, consumer durable loans.

Securitisations may be structured in many ways. In a traditional securitisation structure the cash flow emanating from an underlying asset pool is used to service at least two different stratified risk positions or tranches reflecting different degrees of credit risk. The stratified/tranched structures of securitisations are different from ordinary senior/subordinated debt instruments. While in securitisation junior securitisation tranches can absorb losses without obstructing contractual payments to more senior tranches, in subordination in a senior/subordinated debt structure it involves priority of rights to the proceeds of liquidation.

The pool of assets collateralises the securities. These assets are generally secured by personal or real property (e.g. automobiles, real estate, or equipment loans), but in some cases are unsecured (e.g. credit card debt, consumer loans). The process of securitisation creates asset -backed securities. These are debt instruments created from pools of loan assets effusing streams of cash flows. The technique can be leveraged to create a bond structure from virtually any type of cash flow. The asset backed market was originated in US and is a wide and diverse market populated by wide range of instruments. While mortgage backed securities are called

MBS , all other securitisation issues are classified as Asset—backed Securities(ABS).

"*Synthetic securitisation*" refers to securitisation structure wherein credit risk exposure entailed in an underlying asset pool is transferred, fully or partially , through the use of credit derivatives or credit guarantees which are intended to hedge the credit exposure of the portfolio which continue to remains on the balance sheet of the lender.

Unlike in conventional securitisation, "Synthetic securitisation" structures involves use of credit derivatives to transfer the credit risk entailed in the given asset pool to third parties, viz., banks, insurance companies, and unregulated entities retaining the assets on the balance sheet. The transfer may be either funded (by issuing credit-linked securities in tranches with various seniorities) or unfunded using credit default swaps. Synthetic securitisation can replicate the feature of economic risk transfer of conventional securitisation without removing the assets from originators' balance sheet . While in true sale securitisation the originator transfers the identified asset pool to one SVP that finances the acquisition by issuance of bonds to investors, in a synthetic securitization which is not necessarily a funded structure, the financial assets remain on the balance sheet of the originator and the originator does not realize any upfront funding but credit risk mitigation accrue to the originator. While true-sale securitizations tend to be highly document-intensive, involving complex network and interface of several associated actors ,in synthetic securitizations wherein assets are not transferred and therefore involves more streamlined documentation and resultantly the process can reduce transactional costs and accelerate execution.

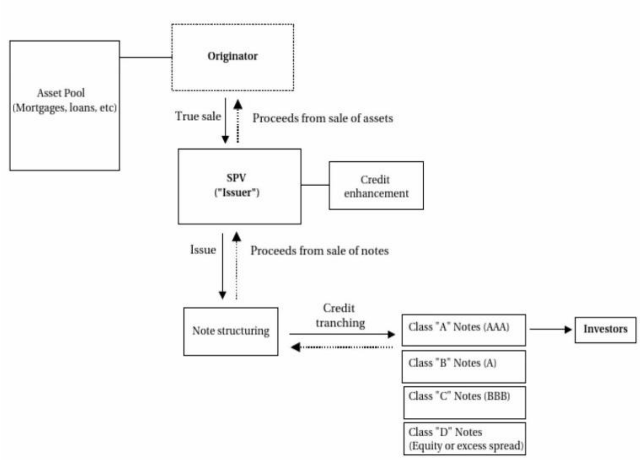
## Securitisation: Genesis

The securitisation market kickstarted in the US in the 1970s when home mortgages were pooled by govt-backed agencies. The first securitization of receivables outside the mortgage markets happened in 1975 when Sperry Corporation securitised its computer lease receivables.

In India, history of asset securitisation is comparatively new being a little over three-decades long. India's first credit rating agency CRISIL rated the first such transaction in 1991 when Citibank securitized a pool from its auto loan portfolio. The market was brought under regulation first in 2006 through issuance of RBI guidelines on securitisation of standard assets as applicable to banks, financial institutions, and non-banking financial companies. With a view to developing an orderly and healthy securitisation market and ensuring greater alignment of the interests of the originators and the investors, RBI considered it necessary to prescribe a minimum lock-in-period and minimum retention criteria for securitised loans originated and purchased by banks and NBFCs. Accordingly a revised guidelines was issued in 2012 . A revised guideline was issued again in September 20021 by RBI to inter alia align the regulatory framework with the Basel guidelines on securitisation which have been in force effective January 1, 2018 as also to incorporate the contextual recommendations of Dr Harsh Bardhan and TN Manoharan committees appointed by RBI. Since then, securitisation in India has been witnessing rapid growth with non-banking financial companies (NBFCs) remaining the main originators of loans to the sector.

## Securitisation : Process & Structures

In general, three distinct characteristics are apparent in securitisation framework : (a) pooling of assets (b) delinking of the credit risk of the collateral asset pool from that of the originator, usually through the transfer of the asset pool to a finite-lived, standalone special purpose vehicle (SPV); and (c) tranching of liabilities (ie issuance of claims with different levels of seniority) that are backed by the asset pool. A schematic diagram of the process is appended.



Tranche is a French word meaning *slice* or *portion*. Tranches are slices cut out from a pool of securities that are segmented by risk, time to maturity, or other characteristics so as to be marketable to different investors. “T*ranche*” is a contractually established part of the credit risk entailed in an exposure or a pool of exposures. An important feature of tranching is the ability to create one or more classes of securities catering to investors with different risk appetites. This may be achieved by creating some tranches having rating higher than the average rating of the securitised asset pool while other tranches, in turn, will carry lower ratings or remain unrated. Various forms of credit support (discussed later) is used to create securities with different levels of seniority . Tranches are accorded priority ordering with regard to the allocation of losses. The payment rights are sliced into “tranches” to be paid in a defined order. These tranches if supported by credit enhancement mechanisms may provide investors opportunity to take exposure to preferred diversified credit risks tailored to the risk appetite of the specific investors. Tranches have different maturities, yields, and degrees of risk—and privileges in repayment in case of default.

In step one, the originator having loans or other income-generating Assets , identifies the assets which it intends to derecognise from its balance sheet (Barring the cases of synthetic securitisation) and pool them to form a reference portfolio. The reference portfolio of assets provides a stream of cash flow. Thereafter it sells the reference portfolio to an issuer, generally a special purpose vehicle (SPV). SPV is an entity set up specifically to purchase the assets. *SPV* may be a company, trust or other entity organised for a specific purpose. The activities of SPVs are restricted to accomplishment of the intended purpose for which the SPV has been created. SPV is so structure as to isolate it from the credit risk of an originator.

In step two, the acquisition of pooled assets is financed by issuance of tradable, interest-bearing securities that are sold to the investors. The investors receive fixed or floating rate payments funded by the cash flows emanating from the reference portfolio. In most cases, the originator services the loans in the portfolio, collects payments from the original borrowers, and passes them on—less a servicing fee—directly to the SPV or the trustee. The regular payments emanating form repayment obligations embedded to the assets in the pool are funnelled or passed through to investors of securities issued by the SVP . Therefore these securities are named as“pass-through securities.” An investor investing in mortgage-backed security (MBS) is issued a pass-through certificate. The pass-through certificate is the testimony to the interest or participation in a pool of assets which entitles the holder to receive pro rata incomes flowing from the securitised asset pool.

As mentioned above the reference portfolio may be diced into several slices, called tranches, each having a different level of risk associated with it and is sold separately. Both investment return (principal and interest repayment) and losses are allocated among the various tranches according to their seniority. The senior most and least risky tranche, would have the first call on the income generated by the underlying assets, while the riskiest has last claim on that income. The common securitization structure is a three-tier security design—junior, mezzanine, and senior tranches. In this structure expected portfolio losses are concentrated in the junior, or first loss position. Usually this constitutes the smallest of the tranches bearing highest return as this tranche is designed to bears most of the credit risk exposure. Senior tranches are least exposed to the credit risk .

The important ingredients of ideal conventional securitisation are:

- Legal true sale of assets to a bankruptcy remote SPV with objectively defined purposes and activities
- Issuance of securities collateralised by the pooled assets by the SPV to investors
- Investors to rely on the performance of the pooled assets in generating cash flows for servicing interest and repayment obligations attached to the securities issued instead of the credit quality of the or Originator (the seller) or the issuer (the SPV).
- Formal rating of the asset pool by one or more accredited rating agencies.

### Cash flow structures used in securitisation

In securitisation structures are customised to the risk appetite of the investor, tenure preferences and issuer requirements. Some commonly used structures are given below.

**Fully amortising structures** envisage full repayment of the underlying loans through interest and principal payment wherein the principal ,unlike in bullet structure wherein principal is repaid on maturity, is repaid to the investor along with interest over the tenure of the Pass Through Certificate(PTC).

In **Par and premium structures** the investor pays the pool principal outstanding as consideration for payment in return for scheduled repayments form the pool receivable and interest at a predetermined rate of interest. It may be noted that in par structure wherein the yield of the pool exceeds interest payable on the PTCs ,an element of excess interest spread (EIS) accrue over which the originator has rightful claim. In a premium structure the investor pays a consideration greater than he pool principal outstanding acquiring the right to receive all the cash flow flowing from the securitised assets.

In **Senior subordinate structures** Cash flows emanating from securitised asset pool can be diced and sliced into multiple classes/ tranches of securities with different tenures and risk profiles. The senior class is given the privilege of having priority claims on cash flow from the pool over juniors , and consequently in the event of shortfall in the pool collections, the subordinate classes provide an element of cushion to the payments due to the senior class.

**In Fixed and floating rate structures** PTCs can be issued at fixed as well as floating rates of interest linked to a designated index or benchmark rate. If the underlying pool comprises fixed rate loans, then interest payment to investors at floating coupon rates introduce an element of interest rate risk in the structure. This risk can be mitigated by using an interest rate swaps.

## Parties to securitisation

A securitisation involves all or some of the undernoted stakeholders: (i) the originator or sponsor ; (ii) the issuer of securities the SPV; (iii)Lead Underwriter who purchases the debt issued by the SPV: (iv) Structuring Team (v) Investors : the buyers of securities issued by the issuer; (vi) the rating agencies, (vii) the credit enhancer, who provides credit support through a letter of credit, guarantee, or other assurance; (viii) Liquidity support provider (ix) the servicer, usually the originator, who collects payments due on the underlying assets; (x) the trustees, who deals with issuer, credit enhancer and servicer on behalf of the security holders; (xi) the legal counsel, who participates in the structuring of the transaction; and (xii) the swap counterparties for interest rate / currency swap, where needed.

## Rating of asset pool: Role of rating agencies

As the investors assumes the risk entailed in the asset pool and not on Originator, an external credit rating would play a significant role. Like any other capital market debt security, securitised paper also needs to be rated by recognised rating agencies. The rating process intended to assess the strength of the cash flow and the system to ensure full and timely payment by well-defined process of selection of loans of suitable credit quality, the extent of credit and liquidity support provided and the adequacy of the legal framework. The rating measures ability and willingness of the structure to sustain all repayment obligations (cash flows) over the currency of the transaction. In the process of risk assessment, the rating agencies undertake analysis of the asset pool evaluating the originator's sourcing process, credit appraisal system/standard and collection and monitoring mechanism with reference to originator's historical performance and also scrutinises transaction structure to assess its impact on cash flows. The rating rationale gives transaction details such as the Originators, tenors, security, legal issues, pool characteristics, sensitivity analysis, cash flow statements (which influences the AAA or other ratings), etc.

## True Sale

True sale is intended to confer to investors an absolute right over the securitized assets. True sale draws the line of demarcation between securitization and collateralised lending. In a true sale, the Originator transfers both the legal and the beneficial interest in the assets to the SPV. Consequently, in the event of borrower/ originator becoming insolvent, no creditors would be able extend their claws to the pool of assets and the cash flows emanating therefrom. The bankruptcy receiver will not have any legal access to the asset pool and thus the SPV and the investors would be bankruptcy remote. Securitisation in its true form achieves an off-balance sheet effect, and hence has a positive impact on the debt-equity ratio of the Originator. There is thus a requirement for clear standing definitions for a True Sale, which if adhered to would qualify the transaction as an off-balance sheet funding. Through true sale issuers can,via the channel of SPV , transfer interest rate risk and credit risk to investors. The test of whether or not securitisation transaction entails true sale qualifying for better capital treatment than on -balance sheet financing involves three elements viz.,

1. The credit structure is truly non-recourse
2. Assets under the securitisation structure are identifiable and countable
3. The exchange of assets takes place at fair value.

A 'yes' to all three elements signals that the sale is true for the transactions. Apparently all securitisation transactions may not qualify as true sale transactions. In case of Asset Backed Commercial Paper (ABCP) where the assets being financed are not property of the financing vehicle stands in violation of item 1.Future flow transactions by definition is violation of condition 2, because the presumption herein of existence of receivables that have not yet been created.

## Credit enhancement

Investors assume exposures to potential losses inherent in the asset pool which may vary in frequency, severity and timing depending on the credit quality of the obligors of originated assets , and macroeconomic scenarios.Credit enhancement refers to contracts in pursuance of which an entity mitigates the credit risk entailed in securitisation exposure and, in effect, enhance the protection to other parties to the transaction against the perils of credit risk entailed in their securitisation exposures. It refers to any of the several means (guarantee, letter of credit etc.,) by which risks inherent in the issued securities collateralised by underlying asset, assumed by the investors are intended to be mitigated affording additional comfort to the investors by way of a sort of buffer against possible losses to a defined extent. Credit enhancement helps improving credit rating of the asset pool to the advantage of the investors. Credit enhancement shifts the risk posed by the less well known pool obligors to well-known ,financially strong and larger credit enhancing entity bridging to some extent the information asymmetry between the originator and the investors to their comfort. Through subordination or over-collateralisation credit enhancement can be made by way of splitting the Issuer liabilities into different tranches viz. senior, mezzanine and junior , and effecting payment to the holders in that order, so as to protect the senior liabilities by the existence of the subordinated liabilities. Over collateralisation involves posting underlying asset pool in value which is greater than the value of the securitisation notes. This acts as shock absorber for the investors in the face of potential credit loss of the pool. Through insurance the credit performance of the assets can be enhanced from both issuer's and investor point of view. Financial Guarantee can provide for the arrangement for payment by the guarantor in the event of the issuer would be unable to pay and there by enhance credit quality of the pool in the interest of investors. Letter of credit arrangement can be resorted to by the SPV for the eventuality of the asset pool suffering credit losses.

Credit enhancement may be split into First Loss Facility (FLF) and Second Loss Facility (SLF).FLF intended to provide the first level of financial support to an SPV to upgrade the securities issued by the SPV to investment grade. The provider of the facility underwrites the bulk of the risk entailed in the assets held by the SPV.

Credit enhancements may be either external (third party) or internal (structural or cash-flow-driven).

**Liquidty Support:**

A liquidity facility is provided to help smoothen the timing differences faced by the SPV between the receipt of cash flows from the underlying asset pool and the payments to be made to investors. The facility intended to be used only where there is a sufficient level of non-defaulted assets to cover drawings, or entire assets which may turn NPA are protected by a adequate credit enhancement. The facility is not intended for providing credit enhancement or covering losses of the SPE. It is not a permanent revolving fund to fall back upon by the SPV. Facility is provided to SPV and not directly to the investors. In the event of utilisation of liquidity facility the provider shall have a priority of claim over the future cash flows from the underlying assets, and thus will be senior to the senior tranche.

**Minimum Retention Requirement (MRR)**

The MRR is primarily intended to ensure that the originators have a continuing stake in the performance of securitised assets so as to ensure that they carry out proper due diligence of loans to be securitised. MRR have been stipulated by the regulator. For other than mortgage backed securities with original maturity of 24 months or less, the prescribed MRR is 5% and for underlying loans with having maturity greater than 24 months, the MRR shall be 10% of the book value of the loans being securitised. For residential mortgage-backed securities, the MRR for the originator shall be 5% of the book value of the loans being securitised, irrespective of the original maturity.

"***Clean-up call***" is an option that permits the originator to call the underlying exposures or the securitisation exposures when the outstanding value of the underlying exposures falls below a pre-defined threshold, thereby extinguishing the remaining securitisation exposures of all parties;

**Risks in Securitisation**

Four important risks can be perceived in any securitisation transaction viz., Credit risk Counterparty risk Legal risk and Market risk

Credit risk is the risk of default on the part of underlying borrowers in the pool of loans in making payment of loan dues. The assessment of credit risk posed by the obligors involves analysis of the nature of the underlying asset class, quality and effectiveness of the origination processes, past performance of the originator's overall portfolio and pool characteristics.

Counterparty risk is the potential of non-performance of counterparties associated with the transaction. The important counterparties to be appraised for assessment of this risk type are the servicer, the designated bank and the swap counterparties if any. Risk appraisal involves analysis of the robustness of the processes and systems in place with counterparties.

Legal risk is the possibility of originator going bankrupt and that the bankruptcy court might attach the securitised receivables restricting the pool cash flow from being specifically earmarked to the investors in the securitisation transaction. Besides, enforceability of various performance contracts among various parties to securitisation transaction with reference to their respective service obligations might pose legal issues entailing legal risks. Independent legal opinion on the important legal issues( viz., true sale conditionalities , bankruptcy remoteness of securities assets etc.) and any other uncertainties associated with the transaction may be sought to mitigate this type of risks.

Market risk is attributable to factors exogenous to securitisation transactions viz., prepayment of loans, movement in interest rates and macroeconomic factors affecting business climate.

## Securitisation: Benefits

Securitisation offers several benefits by way of capital relief, asset-liability management, liquidity, risk tranching etc. Securitization represents an alternative and diversified source of finance based on the transfer of credit risk (and possibly also interest rate and currency risk) from issuers to investors. The major incentives for originators/sponsors to resort to securitisation include funding diversification, funding cost, risk transfer, revenue generation, and regulatory and accounting benefits. Diversification of funding sources and lower funding costs are perhaps the key incentives for them.

Securitisation process enables separation of the assets from the credit quality of the originator. It enables smaller institutions, unrated entities, or non-investment grade entities , to access the capital markets based solely on the basis of credit quality of the originated assets and also by arranging for credit enhancement for the asset pool. Through securitisation, these entities having a lower credit rating, may be able to access financing rates appropriate for 'AAA' credits. It is like buying juice of sour oranges not liked by the customers and convert it into sweet stream of juice by adding sugar ( credit enhancement) to make it acceptable to the customers! If Investors are averse to the existing rating of the asset pool to be securitised , the arrangers may bring in suitable credit enhancement to upgrade the rating of the pool to the level acceptable to investors.

Securitization process enables conversion of illiquid assets (eg, mortgages, auto loans) that otherwise would be sticking to the banking books, into marketable securities. Issuance of the securities backed by the underlying illiquid assets works as a means of transferring credit, liquidity, interest rate, prepayment and market risk embedded to these assets to investors and restricting the legal obligation of the originator/sponsor.

When an originator is able to derecognise the securitised assets from the balance sheet through effecting of true sale , besides freeing of capital, certain financial ratios, such as the leverage capital ratio or return on assets will show improvement. In addition, the process could increase non-interest income, and improve the originator's return on equity. Securitisation also allowed banks which were efficient in originating certain asset types, for instance mortgage loans, car loans, credit card receivables etc., to improve market share without creating balance sheet concentration.

Securitisation offers higher quality assets to investors as the structures insulate investors from the bankruptcy risk of the Originator by moving pool assets out of the balance sheet of the Originator and park them with another independent bankruptcy remote entity usually the SVP.

Securitised products enable investors to meet yield thresholds, and help maintaining certain prudential standards and requirements by purchasing "investment grade" debt.

Investors could meet relative 'safety requirements' as securitisation is fundamentally a kind of bankruptcy-remote secured lending ( assets being legally isolated in a SPV) with credit enhancement which often caused improvements in ratings of the securities.

Investments in securitized products would be a means to avoiding breach of regulatory or internal concentration limits, on single named exposures. Choosing securitised assets bearing low correlation with the other assets in investment portfolio investors can effectively manage the overall portfolio risk.

Securitisation may be means for generating additional incomes by way of fees for underwriting and structuring the transaction, and providing credit and liquidity enhancements for certain structures besides post securitisation income by way of collection and other service charges for the asset pool which generally are more seamlessly done by the originator.

Synthetic securitisations provide opportunity to investors to increase the volume and diversity of acquired instruments without funding the credit exposure.

## Securitisation: Drawbacks

Securitisation tends to set out a long chain of players and its working depends critically on whether the relationships among these players are abided by needed discipline and maintaining adequate information flows in that chain.Some participants engaged in the securitisation process may have incentives to indulge in behaviour to further own interest repudiating the adverse impact thereof on the interest of other stakeholders. These misalignments and conflicts may result in loss of investor confidence in securitisation. In originate-to-distribute model a relatively large number of parties are involved in securitisation transactions, and in the process the distance between a loan's originator and the ultimate bearer of the loan's default risk might get widened. In the event of poorly-underwritten assets being securitised by originators and the securities being bought by many investors without proper appreciation of the entailed risks would be perilous. Originators/sponsors, in particular, often weaken their asset screening and monitoring practices attenuating the securitisation structure.

Hidden complexity in securitisation structure, inadequate transparency and an over-dependence on ratings often tend to misalign the intended existing incentives.

Tranching causes ratings of structured securities to behave differently from traditional corporate bond ratings. Specifically, once a downgrade of a tranched security occurs, it will tend to be more persistent and severe compared to that for corporate bonds. Non-linear relationship between the credit quality of underlying assets and that of tranched products will tend to magnify changes in the valuation of securitisation tranches relative to those observed for the underlying asset pool. Investor reliance on ratings, unless supported by other measures of risk, can thus lead to mispriced and mismanaged risk exposures as well as unfavourable market dynamics if these exposures have to be unwound.

A number of legal, regulatory, accounting, disclosure and other issues are associated with securitisation process which need pointed attention.

## Securitisation: Indian Business and volume

Indian securitisation market registered CAGR of 53.5% between fiscals 2015 and 2017. The market was subdued in FY 2018 registering a reduced volume of Rs 95,100 crore (7.2% lower on-year). Securitisation market volumes reached highs of Rs 1.9 trillion in FY19 & FY20 after the macro-situation and interest rates stabilised. The Indian securitisation registered a lower volume at Rs0.90 trillion in FY21. As per CRSIL report the lower volume in FY21 is attributable to increased risk aversion due to perceived uncertainty around the COVID-19 third wave. In FY 221 the securitisation volume increased sharply to reach Rs1.4 trillion. MBS assets which are considered as more resilient considering the entailed credit risks , comprised a large chunk of the overall volume. Banks and financial institutions in India often engage in Direct Assignments (DA) of standard financial assets. In FY 22 DA accounted for 52% of securitisation deals. Direct assignment structures do not involve an SPV. The identified pools of assets are outrightly transferred directly to the transferee for agreed consideration. Direct assignment (i.e., direct bilateral transfers) constituted dominant segment of the Indian securitisation market. The choice between , “direct assignment” or “securitisation” depends mostly on investor preference . For example, while MFs can invest only in “instruments”, banks” preference often tilt toward acquisition of loan portfolios outright, as PTCs—being a species of investments— would require to be marked to market, and loans and advances do not have such requirement. Besides, for the purchasing banks, the attraction is that many of such loans qualify for the Priority Sector Lending requirements.

Securitisation of standard assets undertaken in India by banks, financial institutions and non-banking financial companies, is regulated and governed by RBI guidelines issued first in 2006 followed by revised guidelines issues in 2012 and 2021. Securitisation of stressed assets is governed by Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 ("**SARFAESI Act**"). With a view to develop market for securitized debt instruments SEBI delivers disclosure based regulation for public issue or listing of securitized debt instruments on the recognized stock exchanges. SEBI regulates the structural fiancé instruments to be listed. This includes functions of SPV, responsibilities of SPV, Trusties, Rating Agencies, originators, minimum disclosures to be made.

Over the past few years, the Indian govt has focused attention to activate the securitisation market by bringing in slew of regulatory measures in the wake of NBFC crises viz., IL&FS and DHFL. The Indian regulator has evinced interest in enhancing participation of foreign portfolio investors (FPIs) in securitisation market. The latest guidelines issued by RBI in September 2021, would expectedly result in improved transparency, risk-based pricing, and deepening of the market. The introduction of STC (Simple, Transparent, and Comparable) concept should enable better risk assessment, benchmarking, and pricing with criteria around minimum track record and performance history of 5 years and 7 years for retail and non-retail exposures, respectively.

Simplicity refers to the homogeneity of underlying assets with simple attributes and a transaction structure that is not too intricate. Criteria on transparency intends to give investors adequate and explicit information on the underlying asset pool, the structure of the transaction and the parties thereto and thus promoting a more detailed and thorough appreciation of the risks entailed. Criteria promoting comparability are intended to assist investors in their understanding of such investments and to enable more meaningful and clear comparison across securitisation products within an asset class taking into account differences across jurisdictions.

## Conclusion

Securitisation process inter alia reallocates credit risk inherent in identified pool of assets by repackaging the incomes emanating from the pool into tradeable securities with different risk ratings enabling access to various investors to exposures with different risk-return profiles which they otherwise might be unable to directly access. Securitisation offers higher quality assets to investors by virtue of the fact that the structures insulate investors from the bankruptcy risk of the Originator. In order to ensure that the assets achieve the bankruptcy remoteness, it is essential to move them out of the balance sheet of the Originator and park them with another independent entity. Typically, an SPV is employed to purchase the assets from the Originator and issue securities against these assets. Such a structure provides a comfort to the investors that they are investing in a pool of assets which is held on their behalf only by the SPV and which is not subjected to any subsequent deterioration in the credit quality of the Originator. However, the securitisation structure may itself act as a source of risk. Complex and opaque structures may render it extremely difficult for some investors to see through the underlying cash flow-generating mechanism and as to how disruptions might arise in the future. Even for simple and transparent securitisations the performance would be poor if the underlying assets were not subjected to effective and strong underwriting and governance. Therefore, careful risk assessment of securitisations and evaluation of credit quality of the underlying assets by the investors themselves are indispensable.

While complicated and opaque securitisation structures are undesirable as they are fraught with potential risk of financial instability, prudentially implemented securitisation process have potential to emerge as important beneficial facilitator of equitable risk distribution besides liquidity enhancer for fresh loans originators.

India is in need of significant investments in infrastructure. Securitisation have the potential to subserve the significantly the financial needs of the infrastructure sector of India. Securitization can be potential option for lenders looking for monetisation of their infrastructure assets. India's securitization market is not as diverse as compared with other developed markets. 'Since India's securitization market is in the early stages of development, infrastructure securitized papers could be structured as a full sale, supported by credit enhancements provided through internal and external mechanisms, to help meet the risk–return expectations of institutional investors in India'.

The securitization landscape of has undergone changes over the years. No longer securitisation involves only traditional assets like mortgages, bank loans, or consumer loans . With the emergence of improved models and risk quantification techniques as also increasing data availability have stimulated issuers to consider a wider variety of asset types, including home equity loans, lease receivables, and small business loans, to name a few.

# INDIA EQUITY MARKET OUTLOOK

**CMA Dhiraj Sachdev**
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**Equity markets globally have been spooked** by recent global banking and financial stress that chiefly originated in the western economies of the US and Europe. The fallout of SVB bank and subsequent stress of Credit Suisse only calls for caution against indiscriminate lending or asset liability mismatch or losses on account of long bond securities valuations. These skeletons have also come out of the closet due to sustained rise in interest rates by global central bankers.

However, we are no living in an era where regulators can afford to prolong banking crisis and are quick to act, even if it means working on a weekend. That's why central banks stepped in on a weekend Sunday. Their coordinated action, the likes of which the world hasn't seen since the European debt crisis a decade ago, represents the first indication that the banking crisis was large and they need to act to avoid long-lasting and systematic-damaging effects to the global economy. US banks have all invested in long term securities, using short term funds which are not benchmark securities. Fed in its effort is taking necessary steps to stop the chain reaction.

For sure, it will **lead to some slowdown in global growth** with credit tightening to risky assets and start-ups. Global banks will be more resistant to lend money, adding more scrutiny to the credit worthiness of borrowers. That means fewer mortgages and less money flowing to businesses, which could slow the global economy and potentially lead to a US recession.

On the positive side, it may **also drive down inflationary pressures**. Besides, due to issues in US banks, there is a greater possibility to focus on financial stability concerns v/s conduct of an aggressive dis-inflationary monetary policy.

## Indian Banks insulated from global mayhem

Specific to India, the RBI report recently indicated that the direct impact of the US or European banking crisis on India's economic activity could be limited. Besides, the presence of foreign banks is limited to just about 4% of lending in India and is not significant to create any adverse impact.

RBI had asked banks to park funds in investment fluctuations reserve (IFR) to provide cushion to any fluctuations in the valuations due to unprecedented events. RBI has always stood out as a regulator, although they have continued to maintain a conservative approach. Despite having more than 25% in investment book, no Indian banks have any unhealthy practices in respective treasury book. For Indian banks, audits are complied with on a monthly basis. In conclusion, SVB type effect does not seem likely on the Indian banks or cause any systematic risk to our economy.

## Weak and uncertain sentiments

Currently, lot of macro negatives like high inflation and consequent high interest rates are largely getting discounted in the markets. As a result, earnings expectations are lower and valuations have corrected across large, mid and small caps.

However, it is possible for potential global risk that has not been fully priced in by the markets. The market's ability to accurately price in all potential risks and uncertainties is limited by human biases and cognitive limitations.

For example, unexpected events such as natural disasters, geopolitical events could create stress points that were not previously accounted for by the market. Additionally, systemic risks such as excessive leverage, inter-connectedness of financial institutions in the current banking crisis across the Western markets of Europe or US could be hidden stress points that may not be immediately apparent to market participants. Any further escalation of geo-political tensions that can disrupt supply chain or trade imbalances are difficult to predict by the markets and may not be discounted.

Ultimately, the market's ability to price in all potential risks and uncertainties is limited and subject to error.

It is also worth noting that even if there are such potential and probable global risks, they may not necessarily result in a significant market downturn or crisis. Markets have shown resilience and the ability to recover from periods of volatility and uncertainty in the past. Additionally, market participants and regulators may take steps to address and mitigate potential risks as they become aware of them.

## Opportunities Galore

Currently, weak sentiment in Indian markets led by global factors offers an opportunity to invest at bargain prices. On a relative basis, given that India business or economy is largely domestic centric due to under-penetration, large consumption base and is less dependent on exports - the earnings linkage in majority is decoupled from state of affairs of the western economies.

There are opportunities across market caps (large to small) for long term investors. A lot of quality businesses that were overvalued, have corrected to more reasonable levels.

Mid and small-cap companies are generally defined as those with a market capitalization between $100 million and $2 billion. These companies can offer investors the potential for higher growth and returns compared to larger, more established companies, but can also have a higher degree of volatility.

Typically small and mid cap companies are under-researched, mis-appraised and hence under-valued and can provide early mover advantage. Stock selection should be strictly based on management competence & ethics, quality of business (size of market opportunity, capital efficiency, sustainable growth outlook, entry barriers, cash flows and capital efficiency) and valuations.

There may be structural tailwinds to mid and small cap investing, as these companies can be well-positioned to take advantage of emerging trends and disruptive technologies. They may also be more nimble and able to adapt to changing market conditions.

Areas of opportunities in the mid and small cap space can include –

**Technology**: Small and mid-cap technology companies may have the potential to offer innovative solutions and products in areas such as cloud computing, SAAS (software as a service) model, artificial intelligence, and cybersecurity.

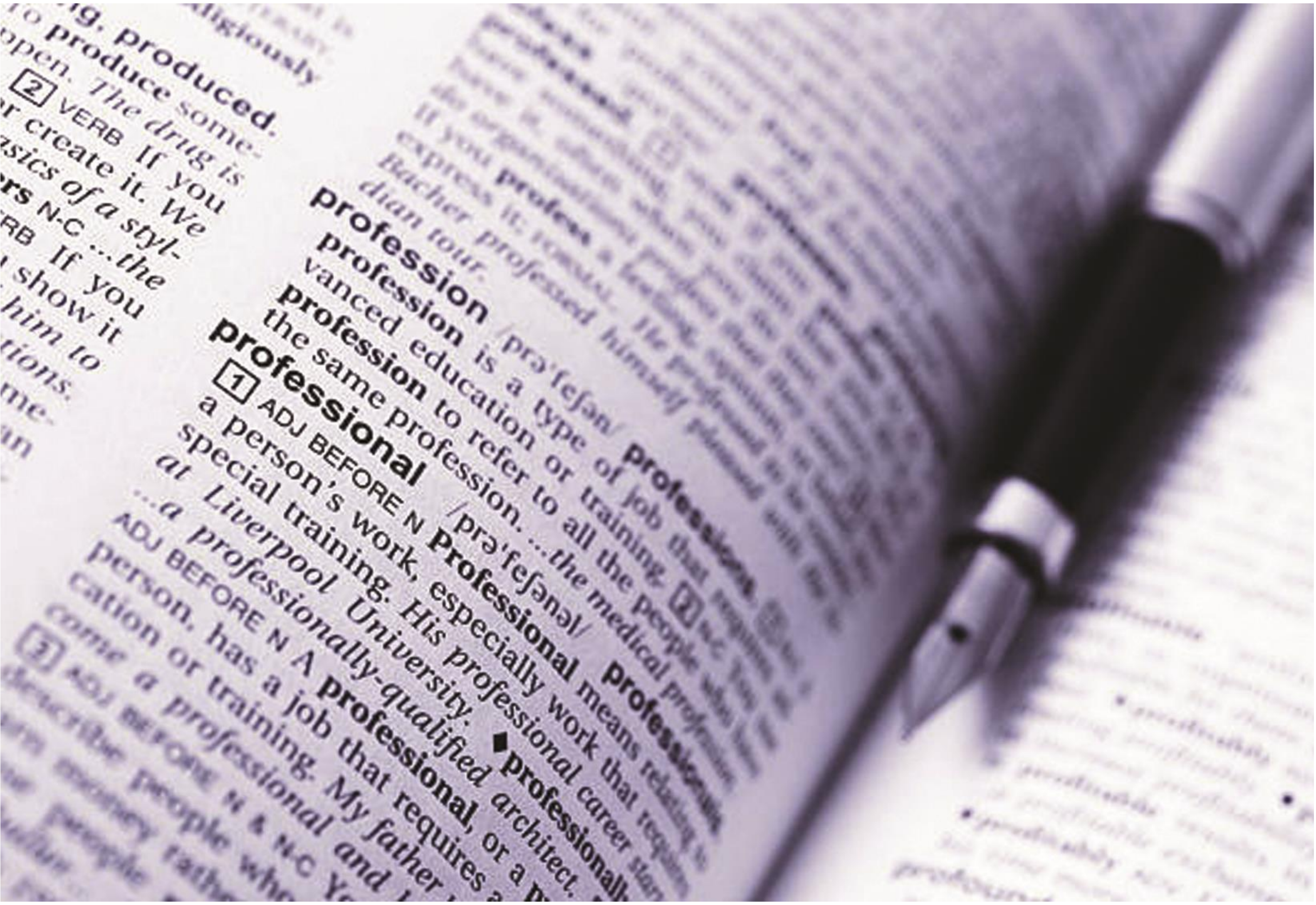
**Healthcare & Specialty chemicals**: The healthcare sector is another area where mid and small cap companies may be able to offer innovative products and solutions in areas such as biotechnology and medical devices. Similarly, specialty chemicals in the areas of flavours, fragrances, niche APIs and molecules that are supplied to larger companies can be high quality businesses and offer investment opportunities that can lead to compounding of returns.

**Consumer Discretionary**: This sector includes companies that produce non-essential goods and can offer services, such as retail, entertainment, and leisure. Small and mid-cap companies in this space may have the potential to offer unique products or services and capture market share from larger competitors.

**Industrials and Capital Goods**: The industrial sector includes companies that produce machinery, equipment, and other goods used in manufacturing and construction. Indian manufacturing will move from the service sector's poor cousin to try to match it. The key drivers are seeded in place – PLI in 14 sectors with emphasis on Atma Nirbhar Bharat along with reduction in tax rates for new units. These, along with China + 1 (looking at supply alternatives to China) have provided the right enablers for potentially strong manufacturing growth in the years ahead. Many companies in this space may be well-positioned to benefit from manufacturing focus driven by the govt's make in India thrust.

**The broad sentiment indicator currently suggests a lot more caution than a year ago, with many estimating a negative expected return for equities over the next 12 months. This negative consensus view will hopefully have the least outcome and lays the essential foundation for a prospective rally. After all, the point of maximum pessimism is the point of maximum returns!**

The key to making money is to stay invested.
*Suze Orman*



# ARTICLES ON ESSAY COMPETITION

On the Topic

## PIVOTAL ROLE OF BANK'S LENDING/ CREDIT TO ACHIEVE ATMANIRBHAR BHARAT

# 1st Prize Winner

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COVID-19 was a crucial event of our era. It has caused widespread devastation of life and livelihood and it was haunting the global economy in several ways. There are very few parallels of a shock like COVID-19 in history which left policymakers with no template to navigate through the crisis. Both health systems and human endeavours to deal with the crisis were stretched to the limit. The pandemic is likely to leave an indelible mark on the way economies and societies function. The post-Covid period is most likely a new dawn, a new normal.

The pandemic has induced several structural changes which have significantly altered the way we work, live and organize businesses. With a greater shift to work from home, technology has gained the potential to boost productivity, by saving on travel time, boosting sales on online platforms and accelerating the pace of automation. As a result, consumption pattern is changing and companies are resetting their supply chains both globally as well as locally. These changes will have wider ramifications for the economy.

The impact of COVID-19- also induced a deceleration in GDP and trade revealing contrasting trends.

The impact of demand and supply shocks was also reflected in the balance of payments. While commodity-exporting countries faced lower current account surpluses due to negative shocks to their net terms of trade, net commodity-importing countries such as India benefited, recording either lower deficits or even surpluses. During the pandemic, there were events like remittance inflows that fell amid widespread job losses in host countries. Nevertheless, the decline in remittances was more than offset by the lower trade deficit and robust net exports of services

The term **"Atma Nirbhar"** stands for Self Reliance. "Atma Nirbhar (self-Reliance) is part of India's glorious journey since the pre-independence era. The main theme of the Swarajya movement was self-reliance. The emphasis on " Atma nirbhar" once again by the Prime Minister of India serves as a foundation on which India can emerge as a leading hub for manufacturing and services.

On 12 May 2020, The Prime Minister of India, Shri Narendra Modi, gave a historic speech on his vision of " Atma Nirbhar" Bharat and announced special packages of Rs.20.00 lac crores – Equivalent to 10% of India's GDP intending to make India a Dominant and self-sufficient economy across countries in the world.

He further outlined five pillars of Atma Nirbhar Bharat, those are – Economy, Infrastructure, System, vibrant Demography and demand.

The Government distributed the special packages to different vital segments such as – Business including MSMEs, economically weaker sections including farmers, agriculture, new growth horizons such as solar PV manufacturing, Advanced cell battery storage and Government Reforms & Enablers such as decriminalization of Company Law default, the launch of PM eVIDYA for technology-driven education support.

In this essay, the role of the Bank's lending decision in creating Atma Nirbhar Bharat is enumerated below:

### Emergency Line of Credit Guarantee Scheme (ELCGS):

It was formulated to mitigate the impact of the unprecedented impact of the COVID-19 pandemic which severely impacted the MSME sector. The main objective of the scheme was to provide an incentive to Member Lending Institutions (MLIs), i.e., Banks, Financial Institutions (FIs) and Non-Banking Financial Companies (NBFCs) to increase access to, and enable the availability of additional funding facilities to MSME borrowers, given the economic distress caused by the COVID-19 crisis, by providing them 100 per cent guarantee for any losses suffered by them due to non-repayment of the GECL funding by borrowers.

As per the Annual report of Nation Credit Guarantee Trust Company Limited (NCGTCL) under ELCGS, Banks have sanctioned loans amounting to Rs.2.49 lakh crores and availed guarantees for a value of Rs.2.36 lakh crores.

### Credit Guarantee Scheme for Subordinate Debt (CGSSD) for Stressed MSMEs

**It** was finalized and launched on 24th June 2020. The scheme was initially in effect till 31st March 2021 only but subsequently, the tenure was extended till 31st March 2022.

Under the scheme, funds were infused for the revival of those MSMEs whose accounts have become Stressed (SMA-2 or NPA) but whose units are operational.

The Scheme was implemented through Credit Guarantee Trust for Micro and Small Enterprise and the target under the scheme is to guarantee loans to the tune of Rs 20,000 crore.

Out of the total corpus of Rs 4,000 crore, Rs. 157.41 crores was released to CGTMSE in March 2021. As of 31st December 2021, 36 banks have extended guarantees amounting to Rs. 81.78 crores to 756 borrowers.

**Agriculture Infrastructure Fund (AIF) Scheme:**

Central Sector Scheme of financing facility under the Agri Infrastructure Fund is operational from the year 2020--21 to 2032-33. The aim is the creation of infrastructure at the farm gate. The scheme shall provide a medium - long-term debt financing facility for investment in viable projects for post–harvest management Infrastructure and community farming assets through interest subvention and financial support. Under the scheme, Rs. 1 Lakh Crore was to be provided by banks and financial institutions as loans to Primary Agricultural Credit Societies (PACS), Marketing Cooperative Societies, Farmer Producers Organizations (FPOs), Self Help Group (SHG), Farmers, Joint Liability Groups (JLG), Multipurpose Cooperative Societies, Agri entrepreneurs, Startups and Central/State agency or Local Body sponsored Public Private Partnership Project, Agriculture Produce Market Committees (APMCs) (APMCs operated regulated markets for Agri allied sector produce including fisheries), State Agencies, National and State level Federations of Cooperatives, Federations of FPOs and Federations of Self Help Groups (SHGs), etc.

As per the data available from the website of the National Agriculture Infra Financing Facility as of 30.11.2022, 52372 beneficiaries were registered for the scheme and the total amount of loan sanctioned under the scheme was Rs. 13,715crs.

**Kisan Credit card:**

As a part of the Atma Nirbhar Package, it was envisaged to disburse 25 lakh new Kisan Credit cards (KCC) aggregating Rs. 25,000Crs.

From the annual report of the Department of Agriculture, Cooperation & Farmer Welfare for the year 2022, we understand that the outstanding KCC limit was Rs.20.85 crs. Banks played a pivotal role in providing adequate and timely credit support under a single window.

**Support to Self-Help Groups (SHGs):**

Under the National Urban Livelihood Mission (NULM), the total interest subvention paid was Rs.29403.45 lacs with total bank linkages of 31496 SHGs. (Source PAiSA portal, Government of India). As a part of Atma Nirbhar Bharat Abhiyan, this portal was rolled out to support the SHGs to make it convenient to claim interest subvention.

**Mudra loan scheme:**

To provide relief to the borrowers who had borrowed under the Shishu category of PMMY, the Govt. of India, under the Atma nirbhar Bharat Package aimed to mitigate the impact of COVID-19, launched the "2% Interest Subvention Scheme for MUDRA–Shishu loans" wherein an interest subvention of 2% is provided to all the MUDRA-Shishu loan borrowers. An aggregate amount of Rs. 379.40 crores has been sanctioned to the Shishu loan beneficiaries of 92 lending institutions.

Under the MUDRA scheme, there was cumulative outreach to 29.55 Crs MSE borrowers with credit support of Rs.15.52 lacs crore.

**PM SVANidhi scheme:**

The Government contemplated extending support to the street vendors by way of Pradhan Mantri Street Vendors AtmaNirbhar Nidhi by providing working capital support to the street vendors.

As of 31.03.2021, 122 Scheduled Commercial Banks had registered with CGTMSE under the PM SVANidhi scheme, and 14,47,266 applications have been covered under the scheme for Rs. 1435.00Crs .

The AtmaNirbhar package was meant for addressing the challenges presented by the pandemic, sustain the recovery process and then aiming for further growth.

The sector has been rendered especially vulnerable by the pandemic, necessitating concerted efforts to combat the stress and focus on the revival of the sector. In this regard, two major schemes, viz., the Emergency Credit Line Guarantee Scheme (ECLGS) and the Credit Guarantee Scheme for Subordinate Debt (CGSSD) were introduced by the Government. These have been duly supported by various monetary and regulatory measures by the Reserve Bank in the form of interest rate cuts, higher structural and durable liquidity, the moratorium on debt servicing, asset classification standstill, loan restructuring package and CRR exemptions on credit disbursed to new MSME borrowers. These measures will not only help in ameliorating stress in the sector but also open new opportunities. Going forward, the Reserve Bank stands ready to support the Small Industries

Development Bank of India (SIDBI) for greater credit penetration to the MSME sector.

### Credit Guarantee Scheme for Subordinated Debt (CGSSD)

Considering the economic significance of MSMEs, the Government launched the CGSSD scheme with the view to helping stressed MSMEs to revive their business. During the FY 2021, guarantee coverage for 473 applicants was approved by CGTMSE for an amount of Rs.55.00Crs

To achieve the objectives of "Atma nirbhar" Bharat there is a need for a big push to the infrastructure sector, supply chain, and warehousing for which Banks play a primary role as a channel for credit in the economy. Sustainable and self-reliant growth also requires building on macro fundamentals via investments, sound financial systems and structural reforms.

The effectiveness of any policy response in crises is critically dependent on the strength of the financial sector balance sheet. The report put out by the Basel Committee on early lessons from the Covid-19 pandemic finds that the increased quality and higher levels of capital and liquidity held by banks have helped them absorb the impact of the Covid-19 pandemic. It would therefore be imperative to work towards putting in place appropriate prudential and accounting frameworks that enhance institutional resilience.

The challenge for the regulator in a fast-developing economy like ours is to keep pace with the market innovations and strive to strike a balance between ensuring safety without stifling innovation which is never an easy task. Responsible financial innovation requires balancing innovative products with necessary safeguards for ensuring financial system stability and customer protection. Therefore, while appreciating and recognising the benefits emanating from digital credit, we need to take cognizance of the attendant risks such as data privacy, disruptive business models, aggressive recovery methods, and exorbitant interest rates. As a regulator, we have been following a nuanced approach to industry/ market development and this is reflected in bringing out an appropriate regulatory framework for digital lending.

By empowering individuals and firms to cultivate economic opportunities, digital credit can be a powerful agent for sustainable and inclusive growth. We must remember that financial inclusion is not just a goal but also a means to an end as an enabler for sustainable economic growth, reduction of inequality and elimination of poverty.

With the increased availability of data from several sources, including GSTN, income tax, credit bureaus, etc., it is now possible to appraise the MSME loan proposals expeditiously by doing due diligence online. Further, with the help of Account Aggregators (AA), lenders will have access to potential borrowers' financial information at a single point, of course, with his/her consent. Furthermore, the emergence of FinTech companies has made it possible to assess the creditworthiness of MSMEs by utilising unexplored data sources such as digital transaction trails, data generated through e-commerce sites, etc. Some lenders are collaborating with FinTech companies to take advantage of such surrogate data for speedier credit underwriting for extending loans to the MSME sector. These new architectures would expand the reach of creditors.

### Conclusion

On the whole, while the pandemic has created enormous challenges, it can also act as an inflexion point to alter the course of development. Enhanced adoption of technology will give impetus to productivity, growth and income. Atma Nirbhar Bharat has set the momentum for developing a self-resilient and self-reliant India. The road map is ready and we are at the crossroads of the growth trajectory.

**The best way to predict the future is to create it – Peter Drucker, Bank is one such foundation that aids in creating the future.**

### References:

1. *Annual Report of MUDRA*
2. *Annual Report of NGCTC*
3. *Annual Report of CGTMSE*
4. *Annual Report of Ministry of MSME*
5. *Annual Report of Ministry of Agriculture, cooperatives and farmers*
6. *Report of RBI & Speeches delivered*

# 2nd Prize Winner

**Omprakash Sinha**
Regional Credit Head
Jana Small Finance Bank Limited
Jaipur

Atam Nirbhar Bharat is very popular Adage now a days and it is the vision and mission of our Honorable Prime Minister, Mr. Narendra Modi. Atam Nirbhar Bharat means Self Reliant Economy which is also being called as Autarky.

On 12th May 2020, our Honorable Prime Minister, Mr. Narendra Modi given a start to the Atamnirbhar Bharat Abhiyan and announced the special economic and comprehensive package of INR 20 lakh Crore, which was equivalent to 10% of GDP of India.

He declared five pillars of Atamnirbhar Bharat which are- Economy, Infrastructure, System, Vibrant Demography and Demand.

As per him this is time to become vocal for our local products and make them global.

The Atamnirbhar Bharat package announced by the government includes the following five trenches:

- Business including MSME,
- Poor including Farmers,
- Agriculture,
- New Horizons of growth,
- Government Reforms and Enablers.

(Source: https://www.investindia.gov.in/atmanirbhar-bharat-abhiyaan)

Following are the highlights of this Atam Nirbhar Bharat Package:

- Rs. 1.70 Lakh Crore relief package declared under Pradhan Mantri Garib Kalyan Yojana for the poor to help them fight the battle against Corona Virus,
- Sanctioned Rs. 15000 crores for Emergency Health Response Package,
- Emergency Credit Line to Businesses/ MSMEs from Banks and NBFCs up to 20% of entire outstanding credit as on 29.02.2020.
- New Definition of MSMEs have been done.
- Rs. 30000.00 crore Special Liquidity Scheme for NBFCS/ HFCs and MFIs have been announced.
- Rs. 30000.00 Crore Additional Emergency Working Capital for farmers through NABARD has been provided.
- Reforms have been initiated for ease of doing business in terms of granting of permits and clearance, self-certification and third party certification among others.
- Online Education during COVID has been started with the help of SWAYAM PRABHA DTH Channels.
- Rs. 40000.00 Crores allocated for MGNREGS to provide employment boost,
- 7200 new Self Help Groups of urban poor have been formed
- Rs. 1500 crores Interest Subvention for MUDRA-Shishu Loans have been announced,
- More world class Airports through PPP will be constructed,
- India to become a global hub for Aircraft Maintenance, Repair and Overhaul (MRO),
- Enhancing Self Reliance in Defense Production by improving autonomy, accountability and efficiency in Ordnance Supplies by Corporatization of the Ordinance Factory Board.
- Policy reforms in Commercial Mining in Coal Sector and Private Investments in the Mineral Sector has been initiated in various ways.

RBI being the Central Bank of India has also taken the following steps mainly in Atam Nirbhar Bharat Abhiyan:

- Reduced the Cash Reserve Ratio (CRR) which has resulted in liquidity enhancement of Rs. 137000 Crores,
- Targeted Long Term Refinancing Operations (TLTROs) of Rs. 100050.00 Crore for Fresh Deployment in investment grade corporate bonds, Commercial Paper and non –convertible debentures.
- Increased the banks limit for borrowing overnight under the marginal standing facility (MSF) allowing the banking system to avail an additional Rs. 137000 Crore of liquidity at the reduced MSF rate.
- Easing of Working Capital Financing by reducing margins.

Banks are playing a pivotal role in accomplishing the Atam Nirbhar Bharat Abhiyan. In other words, we can say that banks are a key driver of this mission, whether directly or indirectly, athe re depended on bank. Whole supply chain process of any of the activity whether it is MSME, Agriculture, Defense, MGNREGS, Mines, Minerals etc are depended on banking system.

Following steps of reforms have been taken where banks are directly involved:

- 20 Crore women Jan Dhan Account Holders received Rs. 500 per month in next three months of declaration,
- 24% of monthly wages were targeted to be credited into PF accounts for next three months for wage earners below Rs 15,000 p.m. in business having less than 100 workers.
- On the request of Government of India, RBI raised the Ways and Means advance limits of states by 60% and enhanced the overdraft duration limits,
- Issued all the pending income tax refunds up to Rs. 5.00 lacs immediately benefitting around 14 lakh taxpayers.
- 3 crore farmers with agricultural loans of Rs. 4.22 lakh Crore availed the benefit of 3 months' loan moratorium
- 25 lakh new Kisan Credit Cards sanctioned with a loan limit of Rs. 25000 Cr.
- 63 lakh loans of Rs. 86600 crore approved in Agriculture between 01.03.2020 to 30.04.2020
- Rs 5,000.00 Crore Special Credit Facility for Street Vendors had been declared.
- Rs 70,000.00 crore boost to housing sector and middle income group through extension of CLSS
- Rs. 2 lakh crore Concessional Credit Boost to 2.5 Crore farmers through Kisan Credit Cards has been announced.

(Source of above information and data is https://www.investindia.gov.in/atmanirbhar-bharat-abhiyaan

### Role of banks in day to day life of a person and its impact on the economy as whole:

Private Sectors Banks and Small Finance Banks are also doing their job deliberately in this Atam Nirbhar Bharat Abhiyan. They are working a catalyst in this mission. With the introduction of various Small Finance Banks and Micro Finance Companies, group loans of small ticket sizes are being given to person of EWS category to start the business of their own and repay the loans availed by them on affordable terms and conditions. It is helping the persons who are engaged in Micro Business and earlier could not have the source of finance.

By opening accounts of deprived person in Pradhan Mantri Jan Dhan Yojna, banking habits of the people in India is improving in large scale. Now, the payments and benefits of every scheme can be received directly in the bank account of a person. With the introduction of Mobile Banking, BHIM App etc. payment is being received and made directly from one account to another within seconds resulting in faster processing of the work. Introduction of various payment platforms are playing a key role in this activity.

Here, Banks are playing a very important role by providing **Home Loans** to its customers. In this way, they are improving the other industries like Cement, Steel, Building Materials, Electrical Items and Sanitary ware products etc.

Banks are also providing **Term Loans** to its customers for purchasing Machinery and Equipment etc which in turn helping in industrial growth of the country. Besides, CC and OD limits are also being given to the customers for working capital purpose.

Non fund based loan facility like **Bank Guarantees** are also being given to the customers for their business purpose.

Similarly, **Commercial Vehicle loans and Construction Equipment loans** are being given by the bank which is helping in the transportation of the goods and services from one part of the nation to other part which is helping in balanced industrial growth and providing the market to the manufacturers of given products.

**Construction loans for hospitals, schools and colleges** and various other educational societies are helping the country in terms of facilitating the education at affordable cost in every part of the country. On the other hand, by providing education loans to their customers, banks are helping the people in getting the higher education at affordable cost and repaying the loans at a later date after getting the job.

Another milestone in funding by banks is **MUDRA Loan**. It denotes Micro Units Development and Refinance Agency. It is given for a variety of purposes which helps in income generation and employment creation mainly for manufacturing, services, Retail and Allied activities.

**Digital Banking Units (DBU):** A digital banking unit has been introduced by some banks recently. It is a specialized fixed point business unit that requires minimum digital infrastructure for delivering digital banking products and services. It will help in delivering new digital products and services and service existing financial products of the bank. It will help in improving financial literacy among customers.

### Boost in Insurance Sector:

Banks are also helping the other sectors to grow in a significant manner, for example, insurance sector. Now, people are more aware in safeguarding their loan amount by availing the insurance facility. People are availing life insurance equivalent to their loan amount from the Banks so that in case of any mishappening, bank can foreclose the loan account from the insurance proceeds so that family members of the borrower can live a peaceful life without having any burden for repayment of the loan.

**Important points which are being kept in mind by a banker while performing the work of Credit Underwriting:**

Credit Underwriting plays a key role while sanction and disbursement of loans may it be Personal Loan, Housing Loan, Loan Against Property, CC /OD Limit, Education Loan or Auto Loan.

It involves the thorough analysis of creditworthiness of customer in terms of 5 Cs i.e. Capacity, Collateral, Character, Capital and condition.

In broader terms, **Credit Underwriting involves PESTEL Analysis** of the business of customer which is having significant impact on the business of customer in future and will in turn have the impact on repayment capacity of the customer. It involves macro analysis of the business environment in which the business of the customer is being operated.

Effect of each of the factors of PESTEL is being explained below:

**Political** – It denotes the political environment of the country or state within which the business is being operated by the customer. Whether the industry, in which the customer is operating, having favorable policy of the government and in case of change in government, whether new government will encourage this industry or not.

**Environment** – Ecological conditions of the country, in which the customer is operating the business, needs any type of NOC from pollution board, the customer is having such NOC or not. If available, what is the next date of getting it renewed.

**Social** – Social environment in which the customer is operating also plays a very crucial role while appraising the loan. Suppose the customer is planning to open a restaurant in a particular area which will provide non veg foods to the customer, if the people who are residing in nearby areas of the restaurant are vegetarian and they do not like the non veg foods, then it will have adverse impact on the sale of foods in restaurant which will, in turn, effect repayment capacity of EMI of the loan of restaurant owner.

**Technological** – In the present scenario of Artificial Intelligence, Machine Learning, Block Chain and IOT etc, technological advancement of the banks and Financial Institution is a key driver in credit underwriting process. Banks are using advance software which is reducing Turn Around Time in sanction and disbursement of the loans.

**Economic** – It includes present interest rates, tax rates, exchange rates and purchasing power of the people. For example, if a customer wants loan for setting up of showroom of premium range of clothes and if purchasing power of the people in that particular segment, is at higher side, the showroom will work well and vice versa.

**Legal-** It includes compliance of health and safety norms by the customer which is related to his business. It is necessary to avoid any legal action against him in the future which will have an adverse impact on the repayment of the loan.

By the above details it is clearly evident that a banker must have a prudent knowledge of Credit and Risk Analysis so that he can decision the cases promptly and sanction the right cases with lower Turn Around Time. By employing the person as a banker, who is having the said knowledge, banks are playing the role of a pillar towards achieving the mission of Atam Nirbhar Bharat, the dream project of our Prime Minister, Mr. Narendra Modi.

Further, Self-Reliance has always been the hot topic for every country. Many developed countries are already on the same track with the thought of VOCAL FOR LOCAL. Countries like China, USA, Japan, Australia are already promoting their products related with Textiles, Electronic Gadgets, Software and Daily Household Products in various countries.

India is having second highest manpower in world and good number of the youth population. It has taken aggressive steps towards, Atam Nirbhar Bharat and also towards Vocal for Local.

From manufacturing of Needle to Aero Space Components, valuable steps are being taken by the Government of India. Many multinational companies are coming to India for investment and for their manufacturing activities as well.

Economic activities running in any country is having pivotal role in increasing the GDP of that country and Atam Nirbhar Bharat Abhiyan is playing the role of catalyst towards achieving this objective with the help of Banks.

At last "No dependency is the biggest adequacy".

# 3rd Prize Winner

**Ajay Kumar**
Assistant General Manager
State Bank of India
Kollam

"In order to fulfil the dream of making the 21st century India's, the way forward is through ensuring that the country becomes self-reliant." – Prime Minister Shri Narendra Modi

This statement of Prime Minister is the base of our country's Atmannirbhar *Bharat Abhiyan* (ABY) or Self Reliant India scheme. He launched this scheme in May 2020 with a mission to promote Indian goods in the global supply chain markets and to reduce our dependence on imports, thereby making our country self-reliant. This policy of self-reliance focuses on five pillars viz economy, infrastructure, system, demography, and demand. It also focusses on land, labour, liquidity and laws and would cater to various sections like women, farmers, labourers, middle class and MSMEs,. All the stimulus packages & the subsequent budgets had the Atmanirbhar Bharat in focus. It need not be overemphasised here that the India Banks play a major role in the said five pillar of ABY. The various governments, regulators and regulated entities have come out with various enablers for pushing forward the ABY.

A dynamic and resilient financial system is a must for a stronger economy and Indian Banks have transformed rapidly to support the growing needs of the economy. The Indian Banks have been the primary channels of credit in the economy and were crucial in the growth of Indian economy. India being an emerging economy and moreover a bank dominated economy, the economic growth is highly dependent on a robust and well developed financial intermediation and it is here that the Banks play a significant role. The ABY thrusts on the "Make in Inda" slogan and this requires a lot of capital addition, infrastructure growth, technology support coupled with demand. All this requires capital or investments and in India, banks play a dominant role in financing such requirements. The ABY aims at attracting investments/industries of cottage type to large corporates. India being a capital scarce country and with the MSMEs being the drivers of ABY, banks will have a pivotal role by lending to these MSMEs.

Corporate lending forms about half of the total loan book of many large banks, but the ABY has made these banks to shift their focus from corporate lending to Retail & MSMEs loans. Post Corvid the landscape of Banking has undergone huge changes and with the entry of new generation fintechs & aggregators there seems to be a lot of disruption in the Banking space. With the new digital push, which most banks have encompassed, the delivery of credit to Retail and MSMEs are going to be smoother and faster. The loans to Retail & MSMEs are of smaller ticket sizes and these would be the perfect ones for digital lending. With digital lending, the cost of delivery and maintenance would be less and this would help the banks to lend more. Analytics and AI are being used extensively by our banks for identifying and marketing in the retail and MSME space. The RBIs Financial Stability Report states that the public sector banks have recorded growth in industrial credit after almost three years of contraction. It also states that the credit uptake in PSBs have improved in the second half of 2021 - 22 with credit hitting 13 percent in June.

The Government of India's annual budgets of 2021 and 2022 had the ABY in focus and many initiatives to drive the scheme were announced in it. The additional outlay for PMAY and an extension of CLSS under the Atmanirbhar Bharat Abhiyaan has enabled the banks to focus on the housing sector, which is a subset of construction activity. This along with the thrust on infrastructure creation in Budgets 2021-22 and 2022-23 is expected to give a fillip to the construction sector. Banks has been playing a significant role in infrastructure financing and this include roads/highways, logistics, and other areas of capacity building.it may be recollected that construction aids the creation of infrastructure projects and reduces logistics costs, improves business competitiveness, thus leading to substantially higher multiplier effects in the economy.

The corporates have shown great resilience and the recovery is sharper than expected. The credit off take by corporates is on the rise and this has made the many banks to revise their targets on to higher side. ABY scheme has given thrust to certain unexplored areas in rural space, cottage industry, direct & indirect agriculture etc. The banks with their vast reach has taken on the One District One Product (ODOP) & PMFME schemes and this has resulted in an uptick in the food processing and value addition of agriculture, where MSMEs, cottage industries and farmers have a larger stake.

Reserve Bank of India coming out with the co-lending models, many banks are on the way to cash in on this novel method of lending. The co-lending model will benefit the customers with the low interest rates of Banks coupled with the last mile connectivity of the NBFCs. The co-lending model will surely benefit the sectors that were out of the banks credit purview and these sectors are one of the leading movers of ABY.

As a component of *Atmannirbhar Bharat Abhiyan* scheme, the government had launched a production-linked incentive scheme (PLI). Following this initiative, many global manufacturers have started their operations in India and this would help in increasing our share in Global Value Chain (GVC). Moreover the operations of the global players in India would help in enhancing the competitiveness of Micro, Small and Medium Enterprise (MSME) enterprises. The Banks being a major provider of credit to MSMEs, it is sure that with the growth of these MSMEs, the demand for credit from them would be met by our Banks.

PSBs with an approximate market share of 69% of total loans of all Schedule Commercial Banks and with a large bouquet of products that they have in their kitty for financing the various sectors, their influence in the five pillars of ABY is very much evident. Since the ABY encompasses different sectors and a larger section, PSBs have various products for financing these sectors which include Mudra Loans, Stand Up India, Kisan Credit Cards, Loans to Street Vendors, PMAY Loans, Dealer financing, Large Term loans and working capital facility. PSBs have ensured credit flow to the unserved and underserved, thus creating an environment for promoting entrepreneurships and large scale employment generation. Their expertise in capital finance, project loans, terms loan etc would come handy for lending to both large and small enterprises under the ABY.

Most infra projects are now executed under then PPP mode and the bulk of private sector funding for the PPP is through project financing, where PSBs have a greater role. Many Banks have entered into tie-ups with IITs, IISCs, Agricultural Universities/Colleges for identifying and funding viable start-ups. There are PSBs which have opened exclusive Start Up Branches for catering to the needs of start-ups and exclusive branches for Solar Power/Renewable energy to cater to these customers. Moreover the consolidation in the Banking sector have increased their balance sheet size and also their risk appetite which in turn would help the credit flow to the needy sectors under the ABY.

One of the important pillar in ABY is “demand “and this demand can be influenced to great extant by the banks. The thought process of “Buy Now Pay Later” will spurt demand in the economy only if the banks provide credit in the retail sector. As discussed earlier the frictionless credit to the retail segment with increase the demand for goods and commodities and would thus help in furthering the ABY.

With all these it is sure that the Indian Banks have a vital role to play in the Atmanirbhar Bharat Abhiyan of the Government of India.

# WEBINARS AND EVENTS ORGANIZED BY THE BFSIB

**Webinar on**

# SCOPE OF CMAs AS SURVEYORS IN GENERAL INSURANCE COMPANIES IN INDIA

The Banking Financial Services and Insurance Board of the Institute of Cost Accountants of India organized the webinar on Scope Of CMAs As Surveyors In General Insurance Companies In India. CMA (Dr.) P.Siva Rama Prasad, former AGM,SBI was the guest speaker for the pertinent topic.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB welcomed and wished the members for a very happy new year. He stressed on to explore the available opportunities from time to time by scanning the market information and also interact with colleague professionals and by attending the various webinars conducting by ICAI and to understand what are the opportunities available in the market. He mentioned that as on date there are 26 general insurance companies competing The General Insurance business in India other than health and agricultural insurance. Due to increase in demand and importance for the insurance business in India the banking sector also made it compulsory that the general insurance products for all the loans and advances sanctioned by them from micro loans to corporate loans for both primary and collateral assets, to mitigate the credit risk. Hence there are substantial increase in demand for surveyors and loss assessors especially professional opportunities in the market which is increasing due to increasing General Insurance business. He appreciated that there is a substantial increase in demand for services.

CMA (Dr.) P.Siva Rama Prasad, former AGM,SBI, made a brief PPT on the topic. He said that due to cut throat competition and demand and supply mismatch it is extremely important that CMAs should search for multiple assignments rather than sticking to a single assignment like cost audit. He discussed about the new opportunities available as registered valuers, transaction audit, forensic audit etc. the speaker gave an overview of the general insurance sector with having 30 companies of which 4 are exclusively for health insurance, and out of the remaining 26 companies, 6 are in public sector, 2 are in agriculture and export/import and the remaining are general insurance with 10775 branch offices scattered across the country as on 31.3.22. while sating the segment wise premium underwritten by general insurance sector, he noted that Rs.2,20700.21 crores has been mobilized. He also mentioned the claims settled and the expenses of this sector. An important point came out that is the retention of the insurance is low and more than 50% of the revenue is reinsured in the London insurance market and those claims are also processed by loss assessors of the Indian insurance sector. Having said this, he mentioned the tremendous untapped opportunities available in this insurance sector. The speaker discussed about the opportunities available in the general insurance sector and said that CMAs are eligible to enrol in 25 general insurance companies as surveyor and loss assessors to assess the claims of fire, marine & cargo and loss of property. He cited the official gazette and pointed the opportunities available to CMAs since 2000 as surveyors and loss assessors. Then IRDA as stated by him has also mandated a dedicated person to be the GM in the surveyor and loss assessor section. The speaker pointed out the IRDA (Insurance Surveyors and Loss Assessors) Regulations,2015, where CMAs are eligible for fire, marine cargo, miscellaneous and also for LoP. The substantial increase in the number of licenses issued and the number of trainee enrolments are indicative to the fact that there are lot of opportunities. While talking about the professional fees, the speaker mentioned that there has been increase in professional fees along with various other perks for various pes of loss assessment which has made this even lucrative for the CMAs. He said that a surveyor and loss assessor is an insurance intermediary licensed by IRDA to investigate, manage, quantify, validate and deal with losses. The general services provided by a surveyor and loss assessor is to estimate, measure and determine the quantum and description of the subject under loss and advise the insured and insurer about loss minimisation, loss control, security and safety measures. Conduct inspection and re inspection and spot and final surveys as and when necessary. Due to Atmanirbhar Bharat Abhiyan the exports and imports are increasing due to which insurance sector is also booming leading to more opportunities as surveyor and loss assessor. The eminent speaker also enlightened about the enrolment process, the examination process and the requisite exam fees and the study materials fees. CMA(Dr.) Siva Prasad, gave an overview of the general insurance companies operating in India. CMAs have expert knowledge on job costing, process costing, standard costing, marginal costing etc. which are helpful in loss assessment and hence the IRDA has recognized the CMAs are experts as surveyors and loss assessors.

After a successful question answer session the webinar was wrapped up by vote of thanks by CMA Dibbendu Roy, Additional Director, BFSIB. He thanked the eminent speaker for such an insightful session and the BFSIB HoD for guidance and BFSIB team members for their support and service.

**Deliberations of the Webinar on**

# "FINTECH IN INDIA"

on 30th January 2023 from 6 pm to 7.30 pm

Financial Technologies (or Fintech) has entered a phase with rapid proliferation of startups, changes in regulatory and technological developments and growing awareness among the general populace. India is amongst the fastest growing Fintech markets in the world. FinTech encompasses the wide range of payments, lending, Wealth Technology, Personal Finance Management, Insurance Technology etc. To educate the members and students of the latest development of the upcoming sector in mind, the Banking, Financial Services and Insurance Board had organized a webinar on 30th January 2023 on "FinTech in India". The Chief Guest and Speaker of the webinar was CMA Sudipto Roy, Founder & Director, Finlabs India Pvt Ltd.

The Chairman of BFSIB welcomed the participants of the webinar and stated that the various disruptions in the BFSI sector such as the digital currency and digital banking units has opened the doors of financial inclusion, self-service and cost effective mechanism of banking channels for people from various waks of life. The increasing penetration of artificial intelligence and machine learning is enabling the growth and ease of day-to-day banking and it has also reduced the burden of banks so that they can enable their profitability and customer service.

CMA Sudipto Roy, Founder and Director of Finlabs India Private Ltd. started the webinar by defining the festures and scope of fintech. Financial Plus technology it is really disrupting the market the financial services industry is one of the most rapidly evolving sectors in the Indian economy. Technological advancements such as mobile payments and cloud-based accounting software radically transform businesses.

The internet is playing havoc as the users are increasing exponentially, from 846 million in 2021 and it is are expected to touch 1.3 billion plus soon. The average Indian devolves about 4.7 hours per day using the internet for professional and personal reasons and 305 million plus users conduct online transactions in India which registers a tremendous internet footfall. These numbers are breathtaking, especially in the context of digital payments both in the urban as well as the rural part of India. Rs. 3.01 trillion of total value of UPI transaction has been transacted only in December 2022, which proves the tremendous popularity of internet penetration in India.

CMA Roy took the discussion forward by stating that payment wallets has eliminated the need to carry any cash, debit cards or credit cards. The simplicity and convenience and the wide variety of usage for daily activities has made the life of the common man much easier. These payment wallets are also offering credit which can be repaid in Equated Monthly Instalments. These wallets are also offering services as discount brokerages. Some of the developed Nations are still way behind or way shy away from the Capital Market in a big way. The Speaker pointed out that the CAGR of investments in Indian fintech startup was 57 percent making fintech the second most funded sector in the Indian startup ecosystem. Fintech is one of the hottest and the most sought after sector in the Indian startup ecosystem. The overall fintech market opportunity in India is estimated to reach 2.1 trillion rupees.

There is massive investor confidence towards fintech in the capital markets. The valuations of the fintech company is skyrocketing making them the fastest unicorn in the country. The Government of India is extremely active in the fintech. The GOI is responsible for a the legislative role of consent and data privacy which includes storing Indian citizens' financial data on domestic servers, therefore making consent mandatory for recurring payments above 5000 rupees.

The Speaker then enumerated the holistic growth that Banks and Fintechs can achieve together if they collaborate together. Fintechs cannot replace Banks but fintechs can work as an accelerator because the agility in execution offered by technology has opened up a multiple avenues for startups to collaborate with traditional banks and other financial institutions.

The Speaker touched upon the contemporary topic of ONDC which is open network for digital Commerce. It is an upcoming initiative by the Indian government to create an open source e-commerce technology platform. This will be a revolutionary change given that the UPI interface is a core part of the open source.

The Speaker discussed the regulatory changes which have been initiated by the Government of India. The Reserve Bank of India issued a new digital lending guidelines for banks lending on August 10 2022 to protect borrowers.

It has been considered to be an extremely positive step as fintechs will now have to work in sync with the existing lending infrastructure with standard operational guidelines in place. The verifiable consequence of this legislation is more fintech players can partner with banks and NBFCs for underwriting, loan disbursement and collection.

The Speaker went on to discuss the very critical role that the changing landscape of accountants and bookkeepers will have to perform whether be it tax consulting, investment advisory or small business growth support. There will be a rampant demand of accountants and bookkeepers who can provide services in multiple languages and which will span across domains. Accountants will become more efficient and provide a higher quality of service technology. It will drastically change the way accountants and books communicate with their clients with the use of online collaboration tools. Real-time advice, software as a service and the adoption of cloud-based accounting software will make it possible for business to operate from anywhere.

In the present scenario accountants have to evolve with the changing industry so they have to develop the necessary skills to perform the administrative, managerial and analytical tasks that technology is incapable of. Therefore there is a need to understand how to use data visualization strategies and programs to translate all the data into insights for clients. There is a need for familiarity with data mining and other data science techniques. Data science will play a very important role use predictive analysis and forecasting to strategically advise clients or organization.

The session was concluded with the Director & Head of the Department giving the vote of thanks.

## Blended Programme on Pension Month on the topic

# "NPS: FROM AN ASSURED CONTRIBUTION TO AN ASSURED RETURN"

27th January, 2023

The BFSI Board organized a blended programme on 27th January, 2023 from 5 p.m. to 8 p.m. The programme was on observance of the Pension Month on the topic **"NPS: From an assured contribution to an assured return".** The programme was hosted at the Indian Chamber of Commerce Auditorium, Kolkata and graced by Shri Supratim Bandyopadhyay, former Chairperson, PFRDA along with CMA Prasenjit Deb, ICoAS, Joint Secretary and Advisor (Cost), Ministry of Food and Public Distribution. CMA Soumit Das, Chief Mentor, Financial Goal Achievers was the speaker in the Technical session. The programme was moderated by CMA Debashish Lahiri, Advocate.

**CMA Chittaranjan Chattopadhyay**, Chairman, BFSIB deliberated the opening remarks by stating that Shri Supratim Bandyopadhyay was the pioneer for germinating the thought of organizing the Pension Month by the Institute. He also stated that like previous year we are organizing the Pension Month with a blend of youth and experienced experts.

**CMA Prasenjit Deb,** graced the event as Guest of Honour and congratulated CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and the Board for organizing such a programme on NPS.

**Shri Supratim Bandyopadhyay** in his address stated the journey of the NPS from it's inception. He stated that the association with the Institute with PFRDA is more than a year and have successfully organized an online programme in the last year i.e. January 2022. The life expectancy of an individual has increased compared to the earlier times with advent of better health facilities and better consciousness of citizens. He stated that living too long is now a reality and it is estimated that presently number of senior citizens in the country is more than 12 crore. He stated that individuals are not prepared to have an income post their retirement. He iterated that there is a migration from a defined payout of pension has been severed by the Government by both, Centre and the State due to huge burden to the Government's exchequer. Presently the corpus of NPS is Rs. 6 lakh crore. He briefed the features of NPS, Atal Pension Yojana and eligibility conditions for each scheme. He stated that Provident Fund is provided by all employers but Pension is not undertaken due to various reasons by the organizations. NPS has the flexibility of deposit, asset class, switching fund manager, lower fund management cost and the CAGR of NPS ranges from 12-14 %. He also iterated that medical inflation has enhanced in multifold times and sizeable corpus post the retirement is the need of the hour. He stated that NPS ensures pension and all individuals would get the benefit through Annuity schemes at the time of Superannuation. He discussed the various schemes of Annuity which is dependent on the requirement of an individual. He also stated assured return is very difficult to be provided by the NPS and the proposal has been placed to the Board of PFRDA for approval and till now it has not been finalized. He stated that the return is fixed for a tenure of one year and thereafter it fluctuates year to year, depending on the market conditions/bond coupon rate. He concluded his presentation with the quote that NPS is to create a pensioned society and give a dignity of life to individuals with self-respect.

**CMA Soumit Das,** in the technical session explained the various phases of a human life with the concept of the circle of life. He explained the pillars of financial planning comprising of emergency fund, lifelong earning and provision to beat inflation. He iterated the big mistakes of financial planning which an individual commit during their various phases of life. The key features, tax and other benefits, architecture, investment options of NPS, charge structure were discussed at length. He also provided compounding tables to depict money multiplier effect. He also stated that asset allocation, risk appetite are the variables for return on investment. The returns since inception from various fund managers of NPS were also depicted to show the comparative performance of them. He also explained the benefit at various CAGR to depict the corpus after a defined time period.

The online and offline Q& A round had relevant, pertinent and thought provoking questions and all were answered by the learned speakers. The session ended with a vote of thanks delivered by CMA Shubhro Michael Gomes, Director and HoD, BFSIB.


Lighting of the Lamp: CMA Soumit Das, Speaker and Chief Mentor, Financial Goal Achievers, CMA Prasenjit Deb, ICoAS, Joint Secretary and Advisor (Cost), Ministry of Food and Public Distribution, CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services and Insurance Board (BFSIB), Shri Supratim Bandyopadhyay, Former Chairperson, PFRDA, CMA Debashish Lahiri, Advocate and moderator & Director and HoD, BFSIB at the seminar “ NPS: From An Assured Contribution To An Assured Return” at the Indian Chamber of Commerce, Kolkata on 27th January 2023 ( R to L)

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB felicitating Shri Supratim Bandyopadhyay, Former Chairperson, PFRDA at the seminar “NPS: From an assured contribution to an assured return” at the Indian Chamber of Commerce, Kolkata on 27th January 2023 (R to L).

CMA Prasenjit Deb, ICoAS, Joint Secretary and Advisor (Cost), Ministry of Food and Public Distribution, Government of India being felicitated by CMA Chittaranjan Chattopadhyay, Chairman, BFSIB at the seminar “ NPS: From an assured contribution to an assured return” at the Indian Chamber of Commerce, Kolkata on 27th January 2023 ( L to R). Shri Supratim Bandyopadhyay, Former Chairman, PFRDA is seated in the extreme right.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB delivering the opening speech during the inaugural session of the seminar” NPS: From an assured contribution to an assured return” at the Indian Chamber of Commerce, Kolkata

CMA Soumit Das, Chief Mentor, Financial Goal Achievers (centre-left) being presented with a plant by CMA Chittaranjan Chattopadhyay, Chairman, BFSIB (centre-right) at the seminar “NPS: From An Assured Contribution To An Assured Return” at the Indian Chamber of Commerce, Kolkata
on 27th January 2023.

CMA Debashish Lahiri, Advocate and moderataor of the session is seated in extreme-left and CMA Prasenjit Deb, ICoAS, Joint Secretary and Advisor (Cost), Ministry of Food and Public Distribution is seated in the extreme right

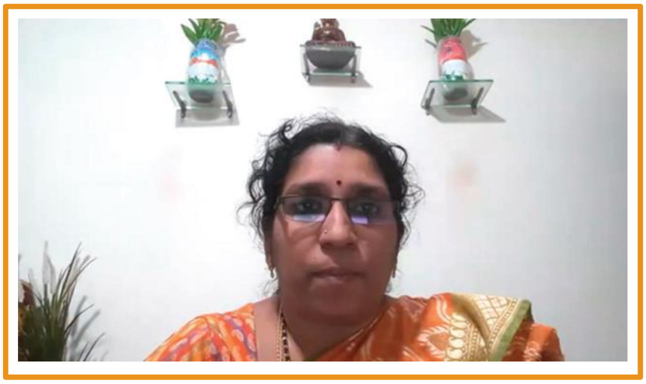
CMA Soumit Das, Chief Mentor, Financial Goal Achievers conducting the presentation upon the topic “NPS: From An Assured Contribution To An Assured Return” at the Indian Chamber of Commerce, Kolkata on 27th January 2023

## Webinar on

# “VALUATION PROGRAM FOR BANKS: DEMYSTIFYING VALUATION FOR BANKERS”

The Banking, Financial Services and Insurance Board organised a webinar on **“Valuation Program for Banks: Demystifying Valuation for Bankers”** on 9th February 2023 from 5pm to 7pm. The Speakers who graced the occasion were CMA (Dr.) S. K. Gupta, Managing Director, Registered Valuers Organisation of the Institute of Cost Accountants of India and CMA K V N Lavanya, Registered Valuer and Practicing Cost Accountant. CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, thanked the two stalwarts for gracing the webinar and stated that ‘valuation’ is one of the most important words that gets used in the banking parlance. ‘Lending’ is one of the most crucial aspect of Banking which by its nature is exposed to various risks whether it is credit risk or default risk. In that case, the property evaluations for sufficient collateral are prevalent to the norms of valuation. The Lending banks have apart from assessing the credit requirements of the borrower, the economic and technical viability of the activity and exercise a high degree of caution in examining, verifying and investigating the title of the mortgages. This critical activity has to be entrusted to professionals outside the domain of banks to maintain critical objectivity. Dr. S. K. Gupta, speaker of the first technical session on “Overview of valuation for the bankers” presented his deliberations. He stated that the world is changing at a breath-taking speed. There have been some very significant changes which have changed the way we live and work. This is a VUCA world that we are presently living in and poised to be very challenging but at the same time, start-ups are mushrooming and new age companies are disrupting the markets with new business model. These companies are giving tough competition to the old and established mechanism of the corporates. However, most of the corporates have profitless turnover in spite of having a good bottom line. These companies continue to command premium valuations as they possess the ability to create value for the stakeholders, preserve those values and propagate that value and enhance it on a sustainable basis. The landscape is changing very fast with information technology bringing about a lot of new instruments and new facilitators for all of us to use. The customer expectations are changing and climate risk is becoming a huge challenge for all of us. This situation by default is both challenging and rewarding at the same time. Reliable and trusted valuations are crucial for borrowing money from Banks and other financial institutions. Proper valuations are necessary for financial stability and sustainable economic growth for the country as a whole. It is necessary to conduct the valuation by a Registered Valuer as more credible the valuation, the better would be the credit decision. The company requires funds at different life cycles whether be it innovation, growth, maturity, saturation or when the company gets into a distress, it could also be on account of a one-time settlement and the company should take consultation from a Registered Valuer under Insolvency and even then there is a mandatory requirement of proceedings to be carried out for the company under corporate insolvency resolution process. In fact, today’s world is moving away from the concept of Security-based Lending. Banks are endeavouring to identify and determine the viability of a project to be financed because that’s what actually takes care of credit risk involved and also helps the bank to improve the quality of its credit portfolio which in turn depends upon what kind of valuation processes were followed, what kind of valuation reports were submitted by the valuers, who are entrusted with the task of carrying out such valuation of asset by the bank and that is where the need for expert asset valuers comes in. The learned speaker discussed about the basics of valuation, determination of valuation and process of getting commensurate value. The speaker enumerated that value is inherent utility of the product or the service which as a rational human being, we always tend to negotiate bargain with the other party because we want to establish an equitable relationship where the price is commensurate with the value that we seek to derive by acquiring an asset at a given point of time. The speaker pointed out the key differences between value and price with relevant practical examples. He stated that valuation is always conducted under certain assumptions. Data should be made available in proper quality as even the smallest variables and nuances carry a lot of weight. The valuer cannot always pinpoint an exact figure with surgical precisement as it involves making an estimate about the future economic potential of an asset or a business. The learned speaker stated that valuation is not a simple mathematical exercise of looking at some numbers but it’s an actual art. It requires consideration of various kinds of factors. Valuation involves building and crafting a story around a certain set of numbers but numbers are not the only basis on which valuation of an asset or valuation of a company depends upon. Any valuation should be done at a macro level. Dr. Gupta discussed the methods of valuation popularly used in the process of valuation which depends majorly upon the judgement and professional expertise of the valuer, whether it is by applying techniques of standard deviation, coefficient of variation decision tree analysis or sensitivity analysis after adjusting for inflation risk or the discount factor to be used. The Financial Stability and Development Council which is chaired by the Finance Minister in its last meeting held in September 2022 recorded in the minutes of that meeting has recommended that registered valuers should be appointed by all banks, all financial institutions or regulators. With this, the first session came to an end. The second session was on "How to read a valuation report". The Speaker of the second session, CMA K V N Lavanya stated that Banking is an activity where huge amount of lending takes place which inordinately comes along with risk. In the given situation, the Banks need to ascertain the value of the collateral of the property. The Banks prefer to follow the market-value approach as stated in the valuation norms. She discussed the various approaches of valuation and the terms of loan. She also discussed how valuation of properties should be done. She reminded that the RBI gives the banks a mandate that they should have government security specifying the demarcation of current and non-current investments. The event was concluded with a vote of thanks by the Director and Head of the Department.


CMA (Dr.) S. K. Gupta, MD, RVO, ICAI deliberating at the webinar on "Valuation Program for Banks: Demystifying Valuation for Bankers"

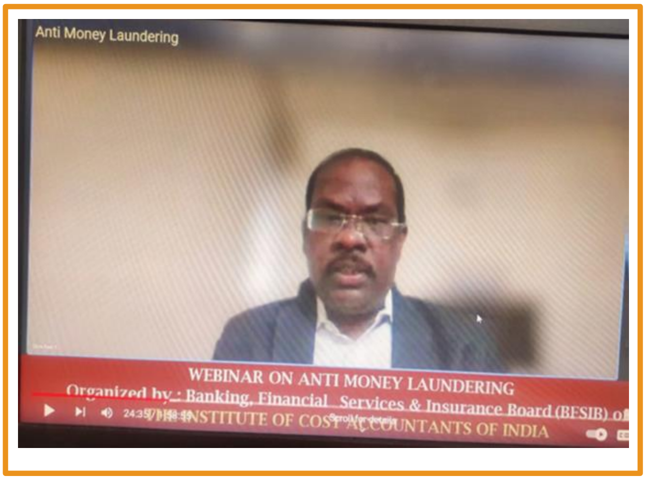


CMA KVN Lavanya, Registered Valuer and Practicing Cost Accountant deliberating at the webinar on "Valuation Program for Banks: Demystifying Valuation for Bankers"

## Webinar on

# "ANTI-MONEY LAUNDERING"


CMA Sangeeta Basu Halabi deliberating the webinar on "Anti Money Laundering"




CMA Siva Rao deliberating the webinar on Anti Money Laundering

The Banking, Financial Services and Insurance Board conducted a webinar on **"Anti-Money Laundering"** on 25th February 2023 from 6 p.m. to 8 p.m. and the Speakers were CMA Sangeeta Basu Halabi, Senior Director, Risk, Compliance & ESG and CMA Siva Rao, Assistant General Manager, ICICI Bank Ltd. CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services and Insurance Board welcomed the participants of the webinar. He stated that for the purposes of money laundering and financing terrorism, the underlying is the primary profit with the intent to conceal the proceeds of the crime and the activities that generate financial flows which divert away resources from economically and socially productive use. CMA Sankar P Panicker, Chairman, Southern Indian Regional Council of the Institute addressed the webinar and stated the steps which are being taken by the Reserve Bank of India to curb terrorism financing and steps for prevention of money laundering. Shri Syamal Ghosh Ray, Consultant of the BFSI Board stated that money laundering is a very serious offence and as a member of the International Financial System, Reserve Bank of India and the Indian Banks need to ensure that stringent measures are taken. The Prevention of Money Laundering Act, 2002 has been implemented with the objective of enabling Banks to know their customers and financial dealings better. The appropriate controls need to be put in place for detection and reporting of suspicious activities in accordance with acceptable loss along with separation of illicit proceeds from their source by creating complex layers of financial transactions thereby avoiding audit trails and providing anonymity. Ms. Sangeeta Halabi started the discourse with a PowerPoint presentation. She stated that financial or physical proceeds are generated from the original crime. At the inception of a criminal activity, there must be a predicate offense. Money laundering is the process of converting the dirty money into clean money. Ms. Halabi discussed in detail about the three stages of money laundering that criminals resort to - placement, layering and integration. The objectives of the stages is separation of illicit proceeds from their source by creating complex layers of financial transactions thereby avoiding audit trails and providing anonymity. She enumerated practical examples of how the laundering may be processed through equity, bonds and real estate. She pointed out the very pertinent fact that when any person earns such illicit money from nefarious activities, he/she cannot disclose that income to the Government due to fear of legal reproach. CMA Siva Rao stated that a lot of money is flowing into India and some of it is getting distributed in small amounts to finance terrorist activities. He exemplified the steps of how the money was illegally obtained and distributed for the September 11 attacks by the terrorists. Both the speakers stated that money laundering can happen in any sector, not necessarily in the Banking or Finance sectors. Cost and Management Accountants have the foremost responsibility along with other professionals to block the entry of illegal money into the financial system. CMAs have to take into consideration any red flags arising from the client such as very high capital or a very complicated structure. CMAs have to identify companies or illegitimate operations which can engage in potential money laundering in the future. The speakers discussed the prominent bodies who combat money laundering on a war footing. The first and foremost is the United Nations (UN) who have their own sanctions regime which is mandatory for every single nation. One more eminent body is the Financial Action Task Force, to set standards and ensure effective implementation of such standards. The Committee for Banking Supervision has also set their own standards and has published a very useful reference material. Cost and Management Accountants must create proactive measures such as due diligence, strengthening internal controls, establish adequate Management Information System to eliminate the risk of money laundering and any suspicious transaction must be reported at once to the competent authorities. There were numerous questions from the participants which were answered by the speakers. The webinar was concluded with a vote of thanks by Director and Head of the Department, BFSIB.

## Seminar on
# "EFFICACY OF IBC - A CASE STUDY"

27th February, 2023


CMA Chittaranjan Chattopadhyay, Chairman, BFSIB felicitating CMA Chitralee Goswami, Chief Guest and Speaker, Chief General Manager, Finance & Accounts, Oil and Natural Gas Corporation (ONGC) (L to R) during the seminar "Efficacy of IBC-A Case Study" on 27th February 2023

CMA Biswarup Basu, Past President being felicitated by CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services and Insurance Board (BFSIB) ( L to R) during the seminar "Efficacy of IBC-A Case Study" on 27th February 2023

CMA Mahesh Shah, Past President being felicitated by CMA Chittaranjan Chattopadhyay, Chairman, BFSIB (R to L) during the seminar "Efficacy of IBC-A Case Study" on 27th February 2023. CMA Biswarup Basu, Past President is also present on the stage (extreme left)

CMA Harijiban Banerjee, Past President being felicitated by CMA Chittaranjan Chattopadhyay, chairman, BFSIB during the seminar "Efficacy of IBC-A Case Study" on 27th February 2023

Seminar on

# INDIA @ 100 GROWTH TRAJECTORY IN AMRIT KAL

The Banking Financial Services and Insurance Board of the Institute of Cost Accountants of India arranged a seminar on India at 100 growth trajectory in Amrit Kal in Kolkata. Dr. Ashok Kumar Lahiri, the member West Bengal legislative assembly and member 15th Finance Commission of India graced the occasion as chief guest and CMA Dr. S.K. Gupta, M.D., ICMAI, RVO was eminent speaker for the program.

CMA Dr. S.K. Gupta started from independence of India. The highlights -

- In the beginning after independence the country decided to follow the path of planned Economic Development with also the direct principle mentioned in the Constitution that the Govt. are going to look at socialistic pattern of society.
- The five-year planning process was started which initiated the economic development in the country in phases. Initial plans were focused on industry next focused on agriculture and then beginning of 80s we came to the concept of balanced Economic Development, having realized that industrial and agriculture are not competing with one another but they are actually complementary.
- The big movement came by with the big Bank reforms which happened in the year1991 by way of LPG i.e. liberalization, privatization and globalization which unbound many of the shackles and the regulatory architecture that the industry and the business was facing, like strategic disinvestments by the government either partially or fully in many of the organizations and it intertwined Indian economy with the whole world by which the globalization force that started up erupted from the LPG wave of 1991.
- The main focus in Amrit Kaal is on the policies and objectives of inclusive growth which is definitely going to take the nation onto the particular path of realizing the objective of becoming not only high ranking nation in terms of GDP but also in terms of standard of living of the citizens.
- India@100 vision will aspire for a sustainable Morally, Economically, Technologically Advanced (META) India by 2047.
- Efficient utilisation of resources in the agricultural, manufacturing and service sector thereby improving the quality of life.
- This can be achieved through development in all sectors which he considered to be the strategy for India@100.
- Cost and management accountant partners in economic development. Only cost and management strategies make the businesses and economy fit for survival and for sustaining growth.
- Management accountants harness knowledge, data analytics planning and technology to provide management the ability to make informed decision.
- The role of a cost and management accountant includes – corporate decision making, resource management, performance management, financial reporting and strategy, optimizing of stakeholder's strategy, risk management, enterprise governance, audit assurance and taxation, sustainable development and CSR.
- CMAs can play a key role in implementation of strategies during the Amrit Kaal through participation in management decision making devising planning and performance management systems and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organisation's strategy.
- CMAs are performing varied and versatile role to serve the industry with focus of efficiency, effectiveness and economy to make organisations sustainable for people planet and profitability.
- The CMAs with expert knowledge and understanding of the enterprise cost management systems can play a key role in spearheading of the economic recovery process in the Indian economy by laying down the systems for cost accumulation, collation and presentation highlighting efficiency, productivity and competitiveness of industry.

- CMAs act as value management professionals, catalyst for transformation, contributor in enhancing national competiveness, facilitator in governance of decision makers and protectors of interest of common people.
- CMAs also have a critical role to play in creating strategies to improve and manage various internal and external risks, developing governance structures including monitoring and administering compliances with focus of cost competitiveness with quality while improving efficiency and effectiveness of operations by using various costing tools and best practices.
- Cost accountants who are mainly value accountants and no other profession is in a better position to provide leadership and meaningful answers to a world striving for insight and direction for its sustainable, economic social and financial future.

Dr. Ashok Kumar Lahiri focussed on the macroeconomic side of the budget. The highlights -

- The union budget 23-24 is in the V shaped recovery after the decline in 20-21.
- The rapid recovery in 21-22 was followed by a modest slowing down.
- The 2023-24 budget tries to combine inclusive growth with macroeconomic prudence.
- The need for prudence is reinforced by the pervasive uncertainty that this there in the global economy.
- The eminent speaker discussed about the uncertainties in the real world like geopolitical uncertainties, volatility in capital movements and rise in price. He said that the union budget is in this backdrop and it has fairly done well.

After a successful question answer session, the program was called for the day. HoD, BFSIB, ICAI, gave the vote of thanks and wrapped up the program

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# SNAPSHOTS

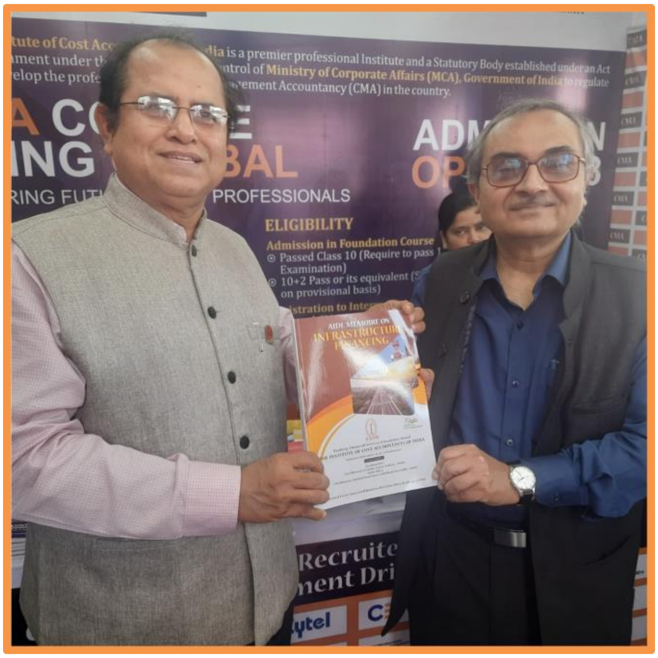

CMA Chandra Wadhwa, Past President addressing the audience through a digital platform for the seminar on "India@100-Growth Trajectory in Amrit Kaal"


CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services and Insurance Board (BFSIB) delivering his speech during the inaugural session at the seminar "India@100-Growth Trajectory in Amrit Kaal"


CMA Biswarup Basu, Past President felicitating CMA (Dr.) S K Gupta, Managing Director, ICMAI RVO with Dr. Ashoke Kumar Lahiri, Member, West Bengal Legislative Assembly & Member, Fifteenth Finance Commission, Finance Commission of India (R to L)

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, CMA (Dr.) S K Gupta, Managing Director,ICMAI RVO, Dr. Ashok Kumar Lahiri, West Bengal Legislative Assembly & Member, Fifteenth Finance Commission,Finance Commission of India, CMA Amal Kumar Das, Past President and CMA Harijiban Banerjee (R to L)

Shri Soma Sankara Prasad, MD & CEO ( 3rd from left ) of UCO Bank releasing the Management Accountant January 2023 issue in presence of CMA Dr. K Ch A V S N Murthy,Chairman, Journal and Publications Committee ( 2nd from left) along with CMA Chittaranjan Chattopadhyay, Chairman, BFSIB ( 2nd from right ) and CMA Biswarup Basu, Past President ,ICAI ( extreme right )




( L to R ) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB presenting the Aide Memoire on Infrastructure Financing to Shri Shiladitya Chatterjee,Former IAS on 2nd February, 2023 at the stall of the Institute at Kolkata Book Fair

( L to R ) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB presenting a bouquet to Shri R. Kesavan,Regional Director, Reserve Bank of India at his Office on 31st January, 2023

CMA K.Rayar, General Manager ( Treasury),Catholic Syrian Bank and Chief Guest at the inaugural session of the 6th Batch of the Certificate Course on Treasury and International Banking on 4th February 2023

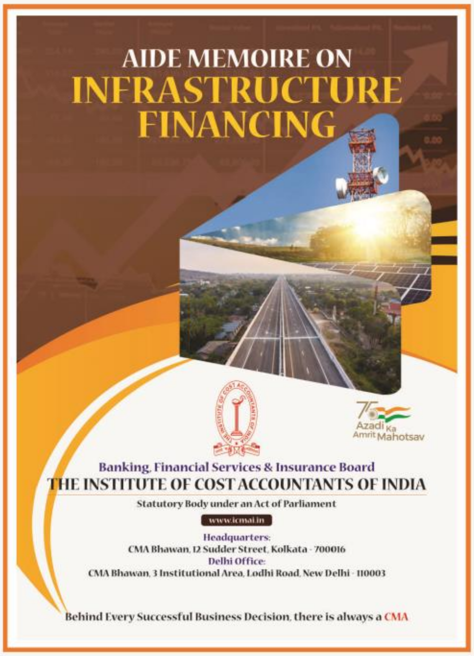
Shri Taufique Alam, MD & CEO,PNB Investment Services Ltd., subsidiary of PNB and Chief Guest at the inaugural session of the 8th Batch of the Certificate Course of Credit Management of Banks on 11th March 2023

Shri Tanmoy Adhikari, Chief Country Officer, CTBC Bank Co. Ltd at the inaugural session of the 8th Batch of the Certificate Course of Concurrent Audit of Banks on 25th March 2023

# Aide Memoire on INFRASTRUCTURE FINANCING

Infrastructure is the backbone of any economy. It is a well recognised fact that Infrastructure has a multiplier effect on the holistic development and rapid sustainable growth.

A Robust Infrastructure Finance mechanism therefore assumes utmost importance in the entire Eco system.




### Synopsis-Salient Features of the book

- A one stop, single reference point, in the niche area of Infrastructure Finance.
- The book covers the basic theoretical concepts as also the real nitty gritty of processes & procedures and nuances involved in Infrastructure Finance with all the relevant topics which inter include the following:-
  - Definition of Infrastructure sector-Harmonised master list of infrastructure sub -sectors, as notified by Department of Economic Affairs, Ministry of Finance, Definition under Companies Act 2013 and under Income Tax Act 1961.
  - Elements of Financing Infrastructure.
  - Types of Public Private Partnership (PPP) models.
  - Formation of the Special Purpose Vehicle (SPV) and Key project documents/structure for Infrastructure Finance.
  - Financing mechanism consortium/syndication.
  - Credit appraisal process-covering management appraisal, economic appraisal, marketing appraisal, technical appraisal and Financial appraisal.
  - In depth analysis of cost of project and means of finance with specific reference to Infrastructure projects, including interest during construction (IDC), Debt Service Reserve Account (DSRA) etc.
  - Key performance indicators including financial indicators and non financial indicators. This includes detailed discussion on all financial ratios for long term funding like DSCR, IRR, BEP and concepts like ESG compliances.
  - Detailed discussion on the intricacies involved in appraisal and sanction, including various aspects of concession agreement, Power Purchase agreement, Escrow agreement, Fuel supply agreement Inter creditors agreement etc
  - Assessment of various Risks involved in infrastructure finance like sponsor risk , construction risk,market risk, financial risk etc and mitigation thereof.
  - Detailed Case studies on the following projects
    - Road sector -Hybrid annuity (HAM)model -New Project
    - Road sector- Toll Operate Transfer (TOT) model-Funding against existing project as a part of Asset Monetization Plan.
    - Renewable Energy sector - Solar Power Plant-New Project.
  - Case studies on Credit Risk Mitigation
    - Waste to Energy Project
    - Water supply management project.
    - Railway station Redevelopment project.
  - Project monitoring and performance audit of infra projects
  - Restructuring, management of weak accounts and NPA accounts.
  - Infrastructure thrust by Government of India- National Infrastructure pipeline , National Monetization Pipeline, NABFID and Atmanirbhar Bharat
  - Alternate sources of funding including InvITs, IDFs, Securitisation, Credit, Enhancement etc
  - Methodology for pricing of loans
  - Preventive vigilance

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Warm regards
**CMA Chittaranjan Chattopadhyay**
Chairman
Banking, Financial Services & Insurance Board

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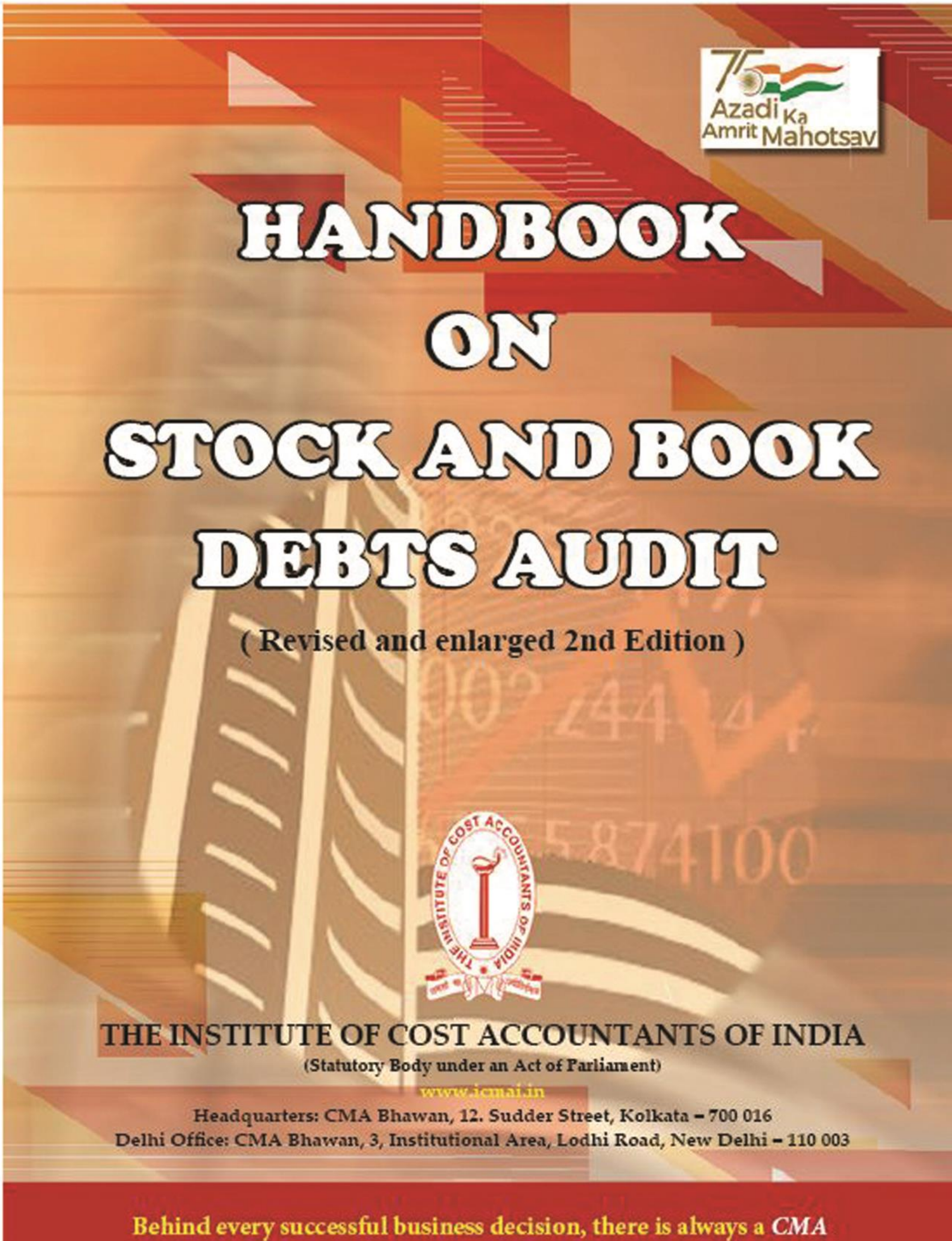



*It has already been published on BFSI portal*

# ACTIVITIES OF THE BFSI BOARD (JANUARY TO MARCH 2023)

The reconstituted Banking, Financial Services & Insurance Board (BFSIB) of the Institute and the BFSI department continued to operate under the active leadership of CMA Chittaranjan Chattopadhyay, Chairman of the BFSI Board. A brief synopsis of the activities and initiatives taken is as follows -

### A. Representations for inclusion and expanding scope of CMAs

The BFSIB continued with its efforts for further development of the profession in the BFSI sector with representations to authorities and employers for inclusion of CMAs in the sector. The concerted and diligent efforts have resulted in numerous opportunities for CMAs. We are pleased to note the following further developments:-

- CMAs are eligible to apply for the post of Manager (Credit Analyst), State Bank of India.
- CMAs are eligible to apply for the 100 posts of Assistant Manager, Group A , General Stream of SIDBI.
- CMAs are included for the post of Chief Manager, Credit (Scale-IV) of Bank of Maharashtra.
- CMAs are eligible to apply for the post of Deputy Managing Director of IDBI.
- CMAs are eligible to apply for the post of Chief Risk Officer for Tamilnad Mercentile Bank
- CMAs are eligible to apply for the post of Sr. Manager (Credit) and Manager (Credit ) in Union Bank of India
- CMAs are eligible to apply for the post of Head-Central Internal Audit Division of The Nainital Bank Ltd.
- CMA Firms are eligible to apply for empanelment as Stock Auditors in the Guwahati Zone of UCO Bank
- CMAs are eligible to apply for the empanelment of Stock and Receivables Auditor/Technical and Financial Consultants for the period from 2023-26.
- CMAs are eligible to apply for various vacancies as specialist Officers in Indian Bank for Credit and Forex Departments.

### B. 2nd ICAI National Awards - Essay Contest 2022 for Bankers

The BFSI Board had organized the online ICAI National Awards -Essay Contest 2022 for Bankers on the contemporary topic of "Pivotal Role of Banks's Lending/Credit to achieve Atmanirbhar Bharat" for which the last date of applications was 15th December, 2022. It is of great pleasure to note that numerous bankers have participated and_sent their essays for the 2nd ICAI National Awards- Essay Contest 2022 for Bankers within the time frame mentioned above. A panel of distinguished Bankers have been constituted with CMA Mohan Vasant Tanksale as the Chairman of this esteemed panel. The best essays will be printed in the next edition of the Chronicle to be released in the month of March, 2023.

### C. Certificate Courses on Banking

The Certificate Course on Treasury and International Banking (6th Batch) would be starting from 4th February, 2023. The admission window for the three Certificate Courses are currently going on as stated below: -

- Certificate Course on Concurrent Audit of Banks (9th Batch)
- Certificate Course on Credit Management of Banks (9th Batch)
- Certificate Course on Treasury and International Banking (7th Batch)

We call upon all members and students to take the opportunity for capacity building and knowledge enhancement by enrolling in such courses for which the link of admission is https://eicmai.in/advscc/Home.aspx . The syllabus of all such courses are under review and updated study materials are under preparation.

The 6th Batch of the Certificate Course on Treasury and International Banking was inaugurated on 4th February, 2023 by CMA K Rayar, General Manager (Treasury), Catholic Syrian Bank. Further, on 11th March, 2023 the 8th batch of the Certificate Course on Credit Management of Banks was inaugurated by Shri Taufique Alam, MD & CEO, PNB Investment Services Ltd. (Subsidiary of PNB). The 8th batch of Certificate Course on Concurrent Audit of Banks was inaugurated by Shri Tanmoy Adhikari, Chief Country Officer, CTBC Bank Co. Ltd, India on 25th March, 2023.

### D. Aide Memoire on Infrastructure Financing

The Publication of BFSIB, titled 'Aide Memoire on Infrastructure Financing', which has been well accepted by stakeholders has been reprinted with ISBN number to ensure wider reach across the unreached. The members, students and others can get their copies through online purchase via the link https://eicmai.in/booksale_bfsi/Home.aspx .
A 2nd enlarged edition is also under consideration and preparatory work for the same has already begun.

### E. Release of Handbook on Stock and Book Debts Audit (Revised and enlarged 2nd Edition)

We are happy to announce that the BFSI Board of ICAI has released the revised and enlarged 2nd edition of the Handbook on Stock and Book Debts Audit on 23rd December, 2022 at an event Chennai. The publication is available and downloadable in soft copies in the BFSI portal. We are happy to inform you that we would be conducting a workshop enhance the skill of our members on the subject for which an announcement is expected to be made soon. The hard copy of the publication will be available for sale soon.

### F. Webinars

The BFSI Board organized two webinars in the month of January, 2023 as follows:

1. Webinar on scope of CMAs as Surveyors in General Insurance Companies in India: The speaker was CMA Dr. P. Siva Rama Prasad, Former AGM, State Bank of India and was conducted on 22nd January, 2023.
2. Webinar on Fintech in India. The speaker was CMA Sudipto Roy, Founder & Director, Finlabs India Pvt. Ltd. and was conducted on 30th January, 2023.
3. Webinar on "Valuation program for Banks: Demystifying Valuation for Bankers" was conducted on 9th February, 2023. CMA K V N Lavanya, Registered Valuer and Practicing Cost Accountant & Dr. S. K. Gupta, MD, RVO, ICAI were the Speakers.
4. Webinar on "Anti Money Laundering" was conducted on 25th February, 2023. The speakers were CMA Sangeeta Basu Halabi, Senior Director, UHY James Chartered Accountants and CMA Siva Rao, Assistant General Manager, ICICI Bank.
5. Webinar on "Expected Credit Loss Framework for Provisioning of Banks" was conducted on 10th March 2023. The Speaker and Chief Guest of the webinar was CMA (Dr.) P Siva Rama Prasad.

### G. Chairman's meetings with various dignitaries: -

a) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB met Shri Vikas Nawal, AGM (Head, Business Credit-East), ICICI Bank and appraised him of the various efforts undertaken by the BFSIB in various domains of the Banking industry on 3rd December 2022.

b) At Chennai CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and CMA Rajesh Sai Iyer, Treasurer, SIRC of ICAI met Shri Rohit Rishi, GM of Indian Bank and Shri H S Ahluwalia, GM of Indian Bank at 6th December 2022. The also met Ms. S. Srimathy, Executive Director, Indian Overseas Bank, Shri K. Swaminathan, MD & CEO of REPCO Home Finance Ltd. and Dr. N. Kamakodi, Managing Director and CEO of City Union Bank on the same date.

c) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB met CMA Gaurav Bhandari, CGM, India Export Import Bank of India on 8th December 2022.

d) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB met Shri Sanjay Kapoor, General Manager (PPR) State Bank of India and presented him with various publications of BFSIB on 14th December 2022.

The Chairman also met Shri Ranjan Gupta, Chief General Manager, Human Resources of State Bank of India and urged for more recruitment of Cost and Management Accountants in various managerial roles in the Bank and the niche services provided by the professionals of our Institute.

e) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and CMA P. Narayan Murthy, Insurance Consultant and Advisor to the BFSI Chronicle met with Shri Raj Kumar, Managing Director of Life Insurance Corporation of India ( LIC) and discussed with him the various aspects of the role of CMAs in the Life Insurance industry. They also met Shri Sunil Agrawal, Chief Financial Officer of Life Insurance Corporation of India and Shri Rajesh Dubey, Executive Director ( Human Resources) of Life Insurance Corporation of India and expounded the increasing importance of Cost and Management Accountants in the Insurance sector. As a separate meeting CMA Chittaranjan Chattopadhyay, Chairman, BFSIB again met Shri Sunil Agrawal, Chief Financial Officer of Life Insurance Corporation of India and appraised him about the training and placement activities of the Institute and requested him to take up the matter with the HR department of LIC for widening the scope of CMAs training and placement opportunities in LIC on a pan India scale.

f) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB met Shri Soma Sankara Prasad, MD & CEO of UCO Bank along with CMA Dr. K Ch A V S N Murthy, Chairman, Journal and Publications Committee along with CMA Biswarup Basu, Past President on 16th January, 2023 to release the special issue on Banking of The Management Accountant, January, 2023 issue.

g) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB met Shri R. Kesavan, Regional Director, Reserve Bank of India, Kolkata RO at his Office on 30th January, 2023 to discuss various activities of the Institute in enhancing capacity building and scope of CMAs in various fields in BFSI sector.

### H). Business Standard BFSI Insight Summit at Jio World Centre,Mumbai on 21st and 22nd December 2022

CMA Debashish Mitra, Chairman, Advanced Studies, Members in Industry and Placement along with CMA Chittaranjan Chattopadhyay, Chairman, BFSIB attended the prestigious summit to increase the visibility of the Institute of Cost Accountants of India. Shri Shaktikanta Das, Governor, Reserve Bank of India graced the occasion as the Chief Guest.

### I) Seminar on Banking-India@100 Growth Trajectory for Banks held at Chennai organized jointly by the BFSI Board, IPA of ICAI, SIRC of ICAI and Madras Management Association (MMA).

The health of the Banking sector is a priority area as it plays a vital role in the financial intermediation in the economy. Keeping in mind the various macro-economic developments during the Amrit Kaal as envisioned by the Hon'ble Prime Minister of India. The BFSI Board under the Chairmanship of CMA Chittaranjan Chattopadhyay decided to jointly organized with SIRC, ICAI and IPA, ICAI a seminar on the topic of "Banking @100"-Growth Trajectory for Banks with Madras Management Association on 23rd December 2022 at MMA Management Center, Chennai. CMA Vijender Sharma, President,ICAI along with CMA P Raju Iyer, Immediate Past President of the Institute and CMA Chittaranjan Chattopadhyay, Chairman BFSIB attended the seminar.

Along with CMA Vijender Sharma and Council colleagues namely, CMA P Raju Iyer and CMA Chittaranjan Chattopadhyay, the inaugural session was attended by several distinguished bankers including CMA S.Krishnan, MD and CEO, Tamilnad Mercantile Bank as the Chief Guest; Shri B. Ramesh Babu, MD & CEO. Karur Vyasa Bank and Shri D Lakshminarayanan, MD, Sundaram Home Finance. Group Captain R Vijaykumar (Retd), VSM , Executive Director – Madras Management Association also participated in the inaugural session.

CMA Vijender Sharma participated in the technical session which was also attended by several distinguished bankers including Shri Arun Bansal, Executive Director, IDBI Bank who gave a presentation on the topic of "Liquidity Management and Role of Treasury in Bank"; Shri R. Radhakrishnan, Chief General Manager, State Bank of India and CMA Murali Ramaswamy, Former Executive Director, Bank of Baroda and Independent Director, Karur Vyasa Bank.

The valedictory session was attended by several distinguished bankers including Shri Mahesh Bajaj, Executive Director, Indian Bank; CA Nalini Padmanabhan, Independent Director, Canara Bank and CMA Chittaranjan Chattopadhyay, Chairman, BFSIB.

The event was attended in large numbers members, students and bankers and was also live streamed by MMA and the Institute's Youtube channel.

### J) Seminar on Social Stock Exchange- Role of Professionals organized by the BFSI Board, ICAI

The BFSI Board, ICAI organized the blended seminar to the Social Stock Exchange - Role of Professionals on 24th December, 2022 at the hallowed turf of Indian Chambers of Commerce at Kolkata. Shri Jeevan Sonaparte, CGM, SEBI was the Chief Guest and CMA Rambabu Pathak, Company Secretary, Eastern Coalfields Ltd. and Chairman, Asansol Chapter, ICAI was the speaker. CMA Vijender Sharma, President, ICAI attended the event along with CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, CMA Amal Kumar Das, Past President ICAI and CMA Kaushik Banerjee, Secretary ICAI. The event was participated by members in both online and offline mode.

### K) Pension Month Blended Programme

The BFSI Board organized the blended programme on 27th January, 2023 on the topic of NPS: From a defined contribution to a defined return. The programme was hosted at the Indian Chambers of Commerce Auditorium and graced by Shri Supratim Bandhopadhyay, Former Chairperson, PFRDA along with CMA Prasenjit Deb, Joint Secretary, Ministry of Finance. CMA Soumit Das, Consultant was the speaker in the technical session. The programme was moderated by CMA Debashish Lahiri, Consultant.

### L) Hybrid Seminar on "Efficacy of IBC - A Case Study

The BFSI Board of ICAI in association with IPA of ICAI organized a Seminar on 27th February 2023 at the Headquarters of the Institute on the topic of "Efficacy of IBC - A Case Study". CMA Chitralee Goswami, Chief General Manager, Finance & Accounts, ONGC and Dr. J. D. Sharma, Chairman, IPA of ICAI were the speakers.

### M) MOU with NSE Academy

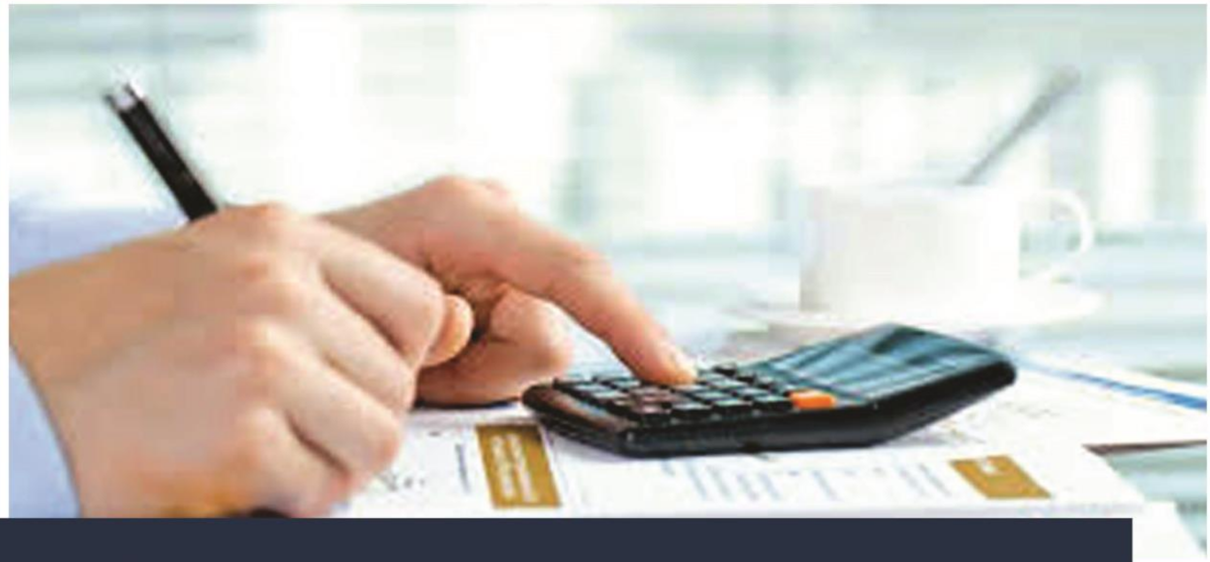
The Council of the Institute approved the MOU with NSE Academy and very soon the Institute is organizing the MOU signing ceremony. The modalities of the course have been framed and very soon the BFSI Board and NSE Academy would be starting the course on Investment Management.

### N) Comments on Discussion Paper on "Introduction of Expected Credit Loss Approach for Provisioning by Banks" submitted with the RBI

The Reserve Bank of India (RBI) released a Discussion Paper on "Introduction of Expected Credit Loss Framework for Provisioning by Banks" dated 16th January 2023 inviting views/opinion on it. The BFSI Board has drafted the views/opinion on behalf of the Institute and such has been submitted by the Institute with the RBI on 28th February, 2023.

# BROCHURES – COURSES OFFERED BY THE BFSI BOARD

Banking, Financial Services & Insurance Board



BROCHURE

# CERTIFICATE COURSE ON CREDIT MANAGEMENT OF BANKS

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

www.icmai.in

Behind Every Successful Business Decision, there is always a CMA

Certificate Course on Credit Management of Banks

## About The Institute

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

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

## International Affiliation

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

## Institute's Strength

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

## Institute's Network

Institute's headquarters is situated at Kolkata with another office at New Delhi. The Institute operates through four Regional Councils at Kolkata, Chennai, Delhi and Mumbai as well as through 110 Chapters situated in India, 11 Overseas Centres abroad, 2 Centres of Excellence, 52 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 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

FCMA/ACMA/those who have qualified Final CMA examination, Final year Students of the CMA Course/Any Graduate.

## 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

Course Fees (including learning kit) of Rs. 6,000/- plus GST of 18%. Final year Students of the CMA course for an amount of Rs. 4,500 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

# Detailed Course Content

✓ **Introduction & Overview of Credit (Module 1)**

- Principles of Lending: Safety, Liquidity, Profitability, Purpose of Loan, Diversification Risk. Credit
- Policy: Importance, Contents, Exposure Norms
- Types of Borrowers: Individuals, Proprietorship Firms, Partnership Firms, Private & Pubic Limited Companies, Limited Liability Partnerships (LLP).
- Types of Credit Facilities: Various Types of Credit Facilities - Cash Credit, Overdrafts, Demand Loan, Term Loans, Bills Discounting
- Credit Delivery: Sole Banking Arrangement, Multiple Banking Arrangement, Consortium Lending, Syndication
- Credit Appraisal: Validation of proposal, Dimensions of Credit Appraisals, Credit Risk, Credit Risk Rating, Credit Worthiness of Borrower, Purpose of Loan, Source of Repayment, Cash Flow, Collaterals
- Credit Rating: Measurement of Risk, Objective of Rating, Internal & External Rating, Model Credit Rating, Methodology of Rating, Internal & External Comparison, Model Rating Formats. Guidelines on CERSAI registration.

✓ **Analysis of Financial Statements (Module 2)**

- Analysis of Financial Statements: Classification of Assets & Liabilities, Current Assets, Fixed Assets, Non-current Assets, Intangible & Fictitious Assets, Liabilities - Current Liabilities, Medium & Term Liabilities, Capital & Reserve, Classification of Current Assets & Current Liabilities, Balance Sheet Analysis
- Analysis of Profit & Loss Account, Auditor's Note
- Ratio Analysis - Classification of Ratios, Liquidity Ratios, Leverage Ratios, Activity Ratios, Profitability Ratios, Interpretation of important Financial Ratios, Fund Flow Statements and Cash Flow Statements
- Project / Term Loan Appraisal: Technical Appraisal, Commercial / Market Appraisal, Managerial Appraisal, Financial Appraisal, Economic Appraisal, Environmental Appraisal, Project Cost & Means of Finance, Cost of Production & Profitability, Sensitivity Analysis, Break-even Analysis, Capital Budgeting - Pay Back Period Method, Time Value Money, Net Present Value, Internal Rate of Return, Life of the Project.

✓ **Working Capital Management (Module 3)**

- Working Capital Assessment: Concept of Working Capital, Gross Working Capital, Net Working Capital, Working Capital Gap, Components of Working Capital, Source of Working Capital, Operating / Working Cycle, Various Methods of Assessment of Working Capital, Computation of Working Capital - Turnover Method, MPBF Method, Cash Budget System, Analysis of CMA Data
- Quasi Credit Facilities: Advantages of Non-Fund Facilities, Various types of NFB Facilities, Various types Letter of Credits, Assessment of LC limits, Bills Purchase / Discounting under LC
- Various types of Bank Guarantees: Performance Guarantee, Financial Guarantees, Deferred Payment Guarantees, Types of Performance and Financial Guarantees, Assessment of Bank Guarantees Limit, Period of Claim under Guarantee

✓ **Other Credits (Module 4)**

- Export Finance: Pre-Shipment Finance-Export Packing Credit in Rupees, Pre-Shipment Credit in Foreign Currency (PCFC), Post Shipment Rupee Export Finance, Purchase / Discount of Export Bills, Negotiation of Export Bills, ECGC Whole Turnover Post-Shipment Guarantee Scheme.

✓ **Monitoring, Supervision & follow up and Management of Impaired Assets (Module 5)**

- Documentation: Meaning, Importance, Types of documents, Requisites of documentation, Stamping of different documents, Mode and time of Stamping, Remedy for un-stamped / under-stamped documents, Documents of which registration is compulsory, Time limit of registration, Consequence of non-registration, Execution, Mode of Execution by different executants, Period of Limitation, Law of Limitation to Guarantor, Extension of period of limitation.

Certificate Course on Credit Management of Banks

# Detailed Course Content

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

## Contact for further queries

**CMA (Dr.) Shubhro Michael Gomes, Director, BFSI Board** at bfsi.hod@icmai.in
**CMA Dibbendu Roy,** Additional Director at bfsi@icmai.in

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

**Statutory Body under an Act of Parliament**

www.icmai.in

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

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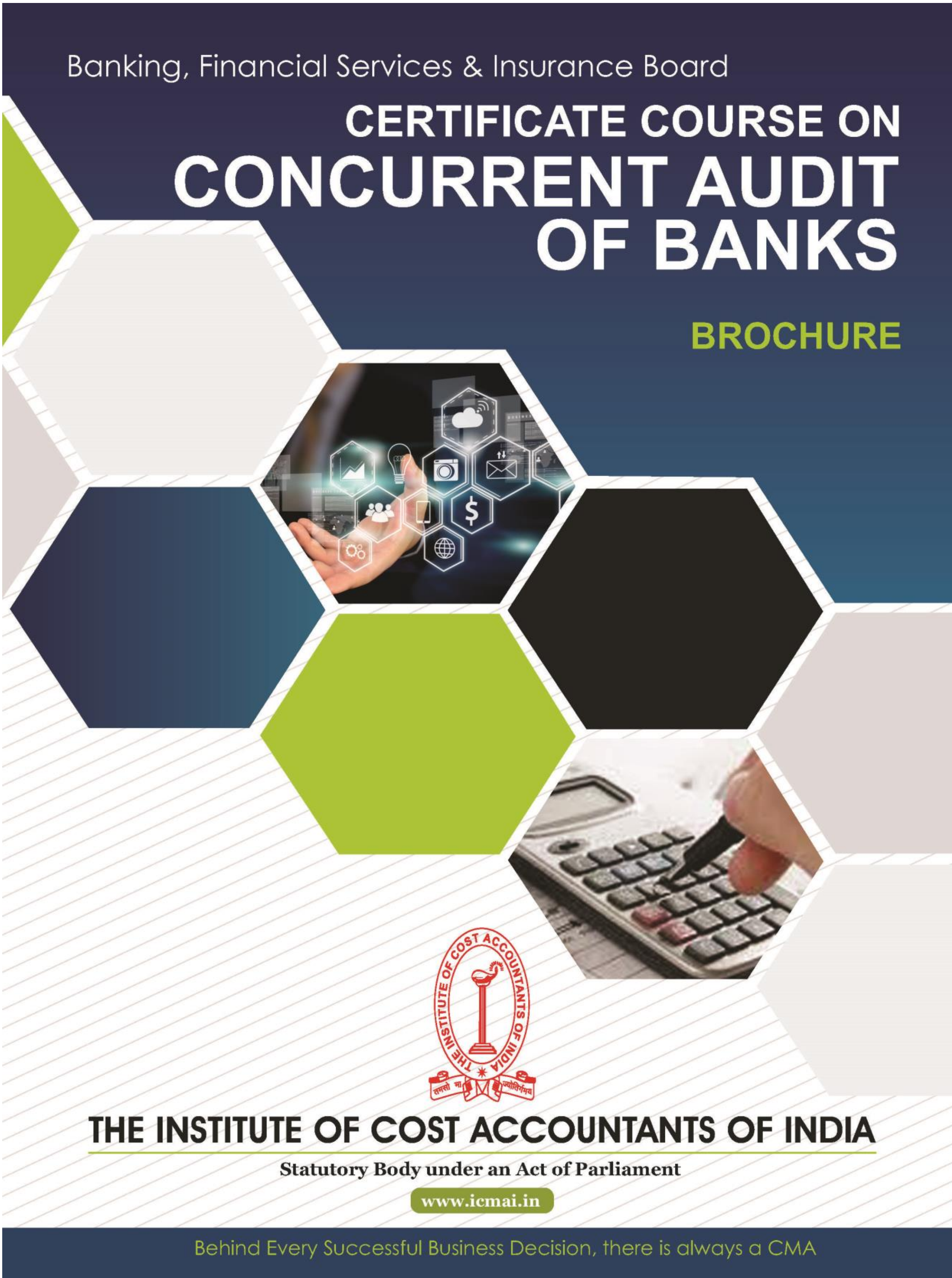
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Certificate Course on Concurrent Audit of Banks

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## 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 Board 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
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## Course Fees

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

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

## Examination

Rs. 750 plus GST per attempt.

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# 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.

Certificate Course on Concurrent Audit of Banks

# Detailed Course Content

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

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

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

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

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

## Contact for further queries

**CMA (Dr.) Shubhro Michael Gomes, Director, BFSI Board** at bfsi.hod@icmai.in
**CMA Dibbendu Roy,** Additional Director at bfsi@icmai.in

Certificate Course on Treasury and International Banking

## 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, 52 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 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

## Course Eligibility

FCMA/ACMA/those who have qualified Final CMA examination, Final year Students of the CMA Course/Any Graduate.

## 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

Course Fees (including learning kit) of Rs. 6,000/- plus GST of 18%. Final year Students of the CMA course for an amount of Rs. 4,500 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.

# 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

Certificate Course on Treasury and International Banking

# Syllabus

**b. Measurement and Control of Risk:**

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

**c. Assets Liability Management:**

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

**d. Hedging the Risk:**

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

## Contact for further queries

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Behind Every Successful Business Decision, there is always a CMA

# FINANCIAL SNIPPETS

Finance Ministry asked banks not to use unethical practises to sell insurance policies

IMF projects 6.8% growth in current fiscal for India

RBI incentives lift NRI deposits for the first time in October this fiscal

Next financial crisis will come from private crypto currencies as per RBI Governor

Need digital competition act for fair play in digital economy – Parliament panel

India's digital economy grew 2.4 times faster than economy in 2014–19 – RBI article

IBC should not be seen as a recovery mechanism says RBI Governor

Canara Bank hits business milestone of Rs.20, trillion

Retail loans up by 28% in October 22, overall outstanding loans recorded 17% YoY growth

Banks net NPA ratio at 10 year low, GNPAs continue downward journey – RBI

Banks credit to service sector jumped 21.3% in November – RBI

Banks pass RBIs stress test on low bad loans, adequate capital

Priority sector lending certificates gain traction, cross Rs.6 trillion mark

RBI cautions Indian banks against increasing retail loans

Payment system operators to report fraud on RBI's DAKSH from Jan 1

Finance Ministry sharply raises small savings rates for March quarter

Deposit rates rise up to 9% as banks rush to raise funds

SBI, ICICI and HDFC bank listed in RBIs domestic systemically important banks

Schedule commercial banks recover Rs.47 421 Cr via IBC route in 2021–22 as per RBI report

Nearly 17% of ECLGS loans have turned into NPAs – RBI report

Bank loans to service sector surpass credit to industry

RBI issues update for fresh KYC process

PSBs to set up joint digital platform to connect with fin tech companies

International regulation needed for crypto activities says RBI

RBI to extensively use AI, MI driven tools for data analysis

Currency in circulation rises by 83% since demonetisation in 2016

Indian banks give highest returns in Asia Pacific region – S&P global

Bank allowed to use face recognition

Interest rates may stay higher for longer – RBI Governor

India remains a top recipient of inward remittances, contributed 12% of total global remittance

NARCL gets Rs.15,300 CR blanket guarantee to tackle bad loans

The Cabinet approved promotional incentives worth Rs.2 600CR for Rupay debit card

Banks raise record funds via bonds, keep deposit rates capped

Credit offtake, deposit growth gap highest in a decade on loan demand

India's IP growth of 7.1% in November

Russia second largest bank VTB Bank launches direct payments in rupees

RBI retail CBDC likely to hit 50,000 usage this month

Moody affirms positive ratings for 4 PSBs, this is including SBI

Asset quality of Indian banks will be stable in 2023 - Moody's

RBI's new proposal on loan loss provisions to raise bank capital needs- Report

Nearly USD 2 billion in November under reserve Bank LRS scheme

NRI deposit turn the tide in November; rise for first time this fiscal

US monetary policy – Dollar to be biggest risk for emerging economies in 2023 – RBI bulletin

RBI proposes banks to design own credit loss models

NBFCs borrowings rise 1.5 lakhs since pandemic

RBI advises States against reverting to old pension scheme, says a big risk

Most of inflation, growth and currency crisis behind us says RBI Governor

Banks get time till December end to execute revised agreements with locker holders

NARCL starts rolling with the first stressed assets acquisition of Jaypee Infratech i

Amid global layoffs, Indian banks look to add more staff

Government unhappy with private banks for missing inclusion goals

Banks seek review of Supreme Court orders tagging statutory creditors as secured ones
India’s economic growth likely to slow to 6 to 6.8% in next fiscal year says economic survey
Government proposes changes in banking regulation act, other laws to enhance investors protection

India’s budget to sustain demand for Corporates says Fitch ratings

Textiles, basic metals, food, real estate, vending and business activities have the highest insolvency cases – economic survey 2023

Banks profitability rises to seven-year high due to RBI, government efforts – economic survey

The Union Finance Minister has listed 7 key priorities which complement each other and act as the ‘ Saptarishi’ guiding the government through the Amrit Kaal .They include
Inclusive development
Reaching the last mile
Infrastructure and investment
And leasing the potential
Green growth
Youth power
Financial sector

Government doubles deposit limit for senior citizen saving scheme to Rs.30 lakhs

PSU banks profit jumps 65% in Q3 –Bank of Maharashtra tops the chart with 139% surge

PSU banks loan write-offs drop during April to December 2022 compared to the corresponding period of 2021

Bank deposits up Rs.12 trillion in FY 23

SBI remains frontrunner in debit cards market and HDFC bank tops credit card

RBI to review arbitrary penal charges on loans; to release draft guidelines soon

IMF paper says crypto should not be granted official currency or legal tender status

Adani crisis unlikely to pose credit risk for Indian banks – rating agencies

Key take aways from RBI monitory policy review statement of February 23

25 basis point hike in repo rate
Inflation forecast brought down to 5.7 from 5.9% for current quarter
Inflation projection for next two quarters at 5.0 and 5.4%
Real GDP growth for FY 24 at 6.4%
India’s external debt ratios are low by international standards
E rupee to be piloted by five more banks in nine more cities
RBI to unveil guidelines green financing

Indian economy has increased in size from being 10 th to 5 th largest in the world

Per capita income has more than doubled to Rs.1.97 lakh

Retail inflation surges to 6.52% in January from 5.72% in December

Unlike retail inflation, WPI eases to 4.73% in January

RBI issues draft norms on Bank’s minimum capital requirement for market risk

NSE gets final nod from SEBI to launch Social Stock Exchange

Unemployment rate dips to 7.2% in October-December

SBI’s USD 1 billion ESG loan completed

Services PMI at 12 year high of 59.4 in February on strong demand, easing prices

Centre saved USD 27 billion in schemes using DBT

Crypto transactions to come under anti- money laundering laws

India’s unemployment rate increase to 7.45 % in February

Finance Ministry tightens definition of ‘ beneficial owners ‘ under PMLA

# Contact Details

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