BANKING, FINANCIAL SERVICES AND INSURANCE (BFSI)

Chronicle

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

www.icmai.in

Headquarters: CMA Bhawan, 12, Sudder Street, Kolkata - 700016
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003

Behind every successful business decision, there is always a CMA

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 largest Cost & Management Accounting body in the world, having approximately 5,00,000 students and 90,000 members all over the globe. The Institution headquartered at Kolkata operates through four regional councils at Kolkata, Delhi, Mumbai and Chennai and 115 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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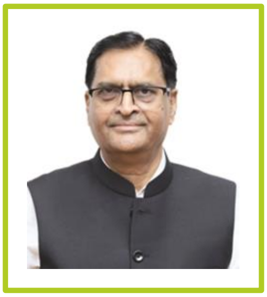
MESSAGE FROM THE PRESIDENT



CMA Ashwin G. Dalwadi
President
The Institute of Cost Accountants of India

It gives me immense pleasure to herald the 14th edition (3rd Annual Issue) of the BFSI Chronicle published of the Banking, Financial Services and Insurance Board (BFSIB). The first edition of the Chronicle which was launched on the Foundation Day of the Institute on 28th May 2020 and the BFSI Board is continuously working for the enhancement of dissemination of knowledge amongst the members and the students. The BFSI Chronicle is also circulated to the Regulators and BFSI Community to showcase its enriching articles pertinent to the sector. It enables a connect with the regulators and the BFSI sector as a whole with the Institute's activities.

I congratulate CMA Chittaranjan Chattopadhyay, Chairman of the Board and all the members of the Board for being proactive and contributing their best for the benefit of the stakeholders.

The BFSI Chronicle includes articles, brochures of the BFSI courses and snapshot of the various events and activities undertaken by the BFSI Board in the last quarter of any financial year.

The BFSI sector varies by specialization, customer segmentation and demographics encompassing a maze of changes in market regulation that impact the current and future trends of the markets, supervisory and macro prudential oversight of institutions, strengthened oversight and disclosure for institutional investors and numerous environmental, social and governance (ESG) practices. To maintain a balance in such diverse areas is a challenging task. The BFSI department has strived with untiring efforts to partner with the leaders of the industry, numerous association bodies and top-notch financial institutions to take the Institute forward.

I would like to thank the authors who have contributed with their valuable articles in making the Chronicle a resounding success.

My best wishes to the Banking, Financial Services and Insurance Board. May they achieve many more milestones in the days to come.

Warm Regards,

CMA Ashwin G. Dalwadi

MESSAGE FROM THE VICE PRESIDENT

CMA Bibhuti Bhusan Nayak
Vice President
The Institute of Cost Accountants of India

I am happy to note that the Banking, Financial Services and Insurance Board (BFSIB) is releasing the 14th edition of the Banking, Financial Services and Insurance (BFSI) Chronicle which is the 3rd Annual Issue. The articles are thought provoking and timely highlighting various pertinent issues of the BFSI sector and pertinent for the capacity building and knowledge dissemination of our members and students.

I would like to congratulate CMA Chittaranjan Chattopadhyay, Chairman and other members of the Banking, Financial Services and Insurance (BFSI) Board for such relevant and useful Chronicle brought out for the benefit of the members and students of the Institute and others from the BFSI sector.

The BFSI Board is catering to the needs of the various industries in all three verticals including Banking, Financial Services and Insurance. The articles are presented to highlight an area of concern for the BFSI sector. The articles are well researched and it includes statistics and inference which are very analysed.

The BFSI Department will continue to flourish in the future with many more accolades and milestones for the growth of the Institute and CMA fraternity. The BFSI Chronicle will strive to continue and serve as a comprehensive guide to enrich the readers about the BFSI sector of our economy by providing current updates.

My best wishes to the endeavours of the BFSI Board.

With warm regards,

CMA Bibhuti Bhusan Nayak

MESSAGE FROM THE CHAIRMAN

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

Greetings and salutations!!

"Coming together is a beginning. Keeping together is progress. Working together is success" – the words of wisdom from Henry Ford resonate deeply with our purpose.

I extend my heartfelt gratitude to the esteemed members of the Institute for bestowing their trust upon me through the election as a Council Member for the 2023-27 term. My appreciation extends to CMA Ashwin G Dalwadi, President (2023-24) for his unwavering faith in me. It is an honour to bear the mantle of Chairmanship for BFSIB during the year 2023-24.

With joy, I announce the imminent release of the 3rd Annual Chronicle, the 14th edition of the BFSI Chronicle, a quarterly opus birthed by the BFSI Board.

We feel elated and proud as an Indian that our Lunar Mission by ISRO is successful with the successful landing of Chandrayan-III Lander on 23rd August, 2023. Kudos to the team of ISRO for their stupendous efforts.

As we marked the 76th year of India's Independence, we salute every Indian who has contributed the essence to our grand democracy. Let us pave the way towards the words of our Honourable Prime Minister: "Sarvajan Hitay, Sarvajan Sukhay," predicting a bright future for our Nation. The current era presents an unparalleled opportunity for nation-building. As Cost and Management Accountants, we hold a pivotal role in India's ascent to be the third largest amongst the echelons of the world economy.

Success is a path paved step by step, a tapestry woven with choices, an ode to education, fervour, commitment, endurance, hunger, and patience. The world awaits your transformative influence, and I am resolute that my CMA fraternity possesses the key to triumph.

I firmly believe that our collective fervour as the CMA family will yield monumental achievements. With each passing day, tomorrow promises to outshine today. Remember – "It is within the realm of the possible that the impossible is achieved through trust in the Divine, the harbinger of boundless potential." Even when the staircase to success appears to be hidden, a steadfast subjugation to the Almighty provides the courage to step forward.

We have gleaned invaluable lessons over the past four years, even during the sombre days of the pandemic. Now, let us dissipate the shadows of despair, kindling renewed vitality with compassion and empathy for our fellow beings. The voyage to prosperity thrives on cooperation and collective effort.

BFSIB has exhibited stellar performance over the preceding quadrennial, interweaving networks with industry titans, asserting the supremacy of CMAs in possessing exceptional prowess and acumen. We've inked a MOU with NSE Academy Ltd. to usher in a joint course on Investment Management, a boon for our members and students traversing the realm of Capital Markets. Our intent is to cultivate further partnerships with premier institutions of BFSI Sector, bolstering our valued members' expertise and knowledge base.

We are glad to state that United India Insurance Company Limited have included CMAs as an eligibility condition to apply for the post of Administrative Officer (Scale-I) in Accounts/Finance Specialist. The total number of vacancies is 24 numbers. The

CMAs can provide necessary value addition in the Insurance Domain and I request the eligible CMAs to apply for the posts so that we can spread our wings in the Insurance Sector.

A vigilant eye on the financial sector's pulse characterises BFSIB's *modus operandi*. We seize every occasion to engage with regulators, Ministries, banks, and financial institutions – focusing on the concerns of BFSIB. Our professionals are invited to initiate certificate courses and participate in seminars and webinars, enhancing our prominence in the BFSI domain.

The finance industry grapples with a dearth of skills and talents to embrace emerging roles. BFSIB underscores the significance of up-skilling and re-skilling to craft a workforce – equipped for the days to ensue.

Amidst the pandemic's tempestuous tides, India's resilience excelled as it invested in infrastructure, fortifying macroeconomic fundamentals. Experts and analysts foresee a buoyant Indian economy, with FY 2022-23's robust growth, kindling high hopes. Barring global uncertainties, growth might surpass 7% in the next biennium.

The spectre of inflation looms as a nemesis to our Nation's growth narrative. Hopes are pinned on bountiful rainfall, to tame retail inflation and to restore vegetable prices to equilibrium.

FY 2024 is poised for vigorous growth through heightened credit disbursal, capital investment cycle, and corporate and banking sector resurgence. Public digital platforms, groundbreaking initiatives like PM Gati Shakti, the National Logistics Policy, and Production-Linked Incentive schemes will galvanize economic expansion through higher manufacturing output.

Soon, a revised and expanded edition of our flagship publication, "**Aide Memoire on Infrastructure Financing**," will grace our ranks. We endeavour to secure CMAs' presence in Concurrent and other Audits, striving for comprehensive engagement across professional discourse and consultancy within the BFSI sphere.

Noteworthy facets of our economic landscape include:

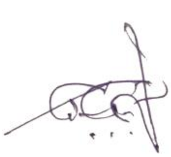
- Headline inflation might scale well above 6% in FY 2024's second quarter, yet core inflation treads a moderate path. Stagflation risks are mitigated by financial ease, stable INR/USD exchange rates, and unwavering domestic fuel prices.
- Investment activity gathers momentum, with capital expenditure set to surge by over 80% to INR 1.71 lakh crore this fiscal.
- The World Bank's latest report extols India's unparalleled growth potential, with education, transport connectivity, and agricultural productivity as its cornerstones.
- GST revenues touched INR 187,000 crore in April 2023, a zenith post-GST implementation, heralding well for fiscal deficit ratios.
- Government and RBI projections predict a 6.5% growth for the Indian economy in FY 2024.
- Urban demand remains robust, seen in sales of upscale automobiles, UPI transactions, and domestic air passenger traffic data.
- Rural demand surges, evidenced by tractor sales, IIP nondurable goods, and Mahatma Gandhi National Rural Employment Guarantee Act data.

Remember, "Success isn't ultimate; failure isn't fatal; it is the courage to continue that counts." It's never too late. Persistence steers us to our destination, unveiling light for those brave enough to see.

My aspiration for BFSIB is luminous: a beacon of hope, a guiding light for our Nation's faith. We must strive with ardour, dignity, passion, and unwavering perseverance – illuminating the path for others.

To my CMA family, I extend heartfelt wishes for the approaching Janmastami, Ganesh Chaturthi, Milad-ul-Nabi, Navratri, Durga Puja, Dussehra, Deepawali, and Bhai Duj. May the brilliance and prosperity of our esteemed profession feel the refulgence of the crescendo with the days to unfold.

With warm regards,



CMA Chittaranjan Chattopadhyay

MESSAGE FROM THE CHAIRMAN

CMA Manoj Kumar Anand
Chairman
Professional Development Committee
The Institute of Cost Accountants of India

It gives me enormous joy and satisfaction to congratulate the Banking, Financial Services and Insurance Board for bringing out this 14^{th} edition of the BFSI Chronicle which is also the 3^{rd} Annual issue published by BFSI Board since 2020.

The BFSI sector is the largest contributor to the service sector which in turn is the highest contributor to the GDP of our country. The growth trajectory of a country depends on how well it delivers with its structured financial system and with the help of the regulators like Ministry of Finance, Ministry of Corporate Affairs, Department of Financial Services, RBI,SEBI, IRDAI and others our financial structure is in the safest hands.

We are a proud nation having the dual responsibility of capitalism with simultaneous balance of socialism. The country in its goal of ‘Atmanirbhar’ Bharat in this Amrit Kaal has created the mission that we will be the 3^{rd} largest economy very soon.

The BFSI Board has created the right music with their rich publications and being the Chairman of the Professional Development Committee of the Institute I feel that such efforts which are useful to the Industry and required for the Industry Institute connect.

We applaud the efforts of CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and other members for their thought process and appreciate the implementation of such by team BFSI in executing them to the best interests of all stakeholders of the Institute.

I believe that continuous learning is required and through such articles published in the chronicle will help our members, students and others by keeping themselves abreast with the latest developments in the BFSI sector.

We hope that CMAs will be recognized by all the regulators and India Inc. for their prowess in catering to the needs of the Industry with their knowledge and skills.

I hope the Banking, Financial Services and Insurance Board brings more such laurels in their journey of knowledge management.

Warm Best Regards,

Manoj Kumar Anand

CMA Manoj Kumar Anand

FROM THE DESK OF THE DEPARTMENT

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

The Indian economy continues to show strong resilience to external shocks. Notwithstanding external pressures and global uncertainty like declining exports of China and increase of rate of Fed in the United States along with the Russia Ukraine War the India's service exports have continued to increase, and the current-account deficit is narrowing.

The rainfall in the month of June had seen a deficit of 6 % but in August we have seen that a surplus of 10 % of rainfall which augurs well to a near normal monsoon which further depicts that the effect of El Nino is not at all impactful. The spiralling rise of vegetables prices are now receding due to proper policy implementation of the Government. Imposition of high tariffs in export of onions and mechanism of government agencies like NAFED and NCCF have curbed the price spikes in various markets with such measures of the Government. It has resulted in double digit price of tomatoes alleviating the growing misery of the middle class.

The Kharif season crop is estimated to have a good harvest as per the rainfall predictions of IMD. However, the supply side will improve and help the rebounding economy by keeping the prices under check in the long run.

Due to the rise in the consumer price index showing a spike and the inflation target of the Reserve Bank of India which was within the limits of 2 to 6 % the regulator in their Monetary Policy stance has kept the repo rate unchanged at 6.5 per cent in their latest monetary policy, choosing to pause for the time being. We have seen that the Banking Sector profits for the Q1 a phenomenal success with the asset quality improvement and lowering of provisions. The Banks are showing better operating profit as per their quarterly results. The improvement of the Banks is mainly on account of the digital transformation. The Digital Payment Index has seen a sharp increase since September 2022 published by the Reserve Bank of India and it depicts that the product, process and payments of Banks are adopting the digital pathway.

Interestingly, the credit-deposit ratio has continued to improve strongly from the lows of the pandemic despite the rising interest rates. A deeper dive reveals that most of the lending is happening in the industry and services sector.

The bulls at the Dalal Street have been on quite a rampage; benchmark indices have hit fresh highs. We have seen that the rating agencies have given a better rating to India and we have seen that re-rating of sectors and corporate deleveraging and the strong earnings growth are fuelling the upward movement of the index. The Foreign Portfolio Investors (FPI) has been in positive territory despite disruptions caused by the Russia-Ukraine war. The aggregate profit of Nifty 50 Companies has seen to rise by 37 % year on year and 10 % sequentially for the quarter ending in the month of June.

It is observed that with reduced provisioning for the bad loans it is strengthening balance sheets of the Indian banking industry. The Indian retail participation is exuding high confidence in the capital markets and especially in the mutual fund which has seen a steep rise in the AUMs with steady inflows by domestic retail participation. The trading volumes in the futures and options (F& O) segment had crossed Rs. 100 Lakh crore on weekly and monthly expiry days.

With such positive vibrations in the Indian Economy it is only time that Indian Economy will be 3rd largest economy of the world surpassing Japan and Germany in the coming days.

Stay safe and happy reading!

CONTENTS

BANKING

Can the Expected Credit Loss Approach be a panacea for Indian Commercial banks

CMA (Dr.) Nabanita Ghosh
Asst Professor
Christ University, Bangalore

Introduction:

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

Background:

During the year 2009-10 and 2013-14 the rate of NPAs was lesser than the world's average at 3% after which the world's rate got stabilized at 4% but the rate of Indian NPAs trembled up. Further in between the years 2014-15 and 2016-17, the NPAs went up from 4.3% to 9.6%, the average growth rate of NPAs was at 7%. With regards to the value, the NPAs which amounted to ₹59400 crores in the year 2004-05 moved up to ₹790268 crores in the financial year 2016-17 and to ₹1039000 crores in the year 2017-18. The annual Gross NPAs (GNPA) ratio of the nationalized banks for the year 2005-17 was 4.55% and in case of Private Sector Banks (PVBs) it was 2.65%. The elevation which was majorly in the Public Sector Banks (PSBs) accounted for NPAs in both priority and non-priority sector, with the latter spiking. The priority sector NPAs was at 61.5% during the year 2008 and it fell down to 23.5% during 2017 and in the same period the swing in the NPAs in non-priority sector came to 72.4% in 2017 from 37.1% during 2008.

Re-emerging Stress in the Asset Quality of Indian Banks:

The rise in Asset Quality deterioration rate can be best understood from the lending behaviour of the banking segment and pro-cyclicality. During 1985, a health Code system was introduced for constant scrutiny of loan assets quality, their further slippages and adequate provisioning. The advances are classified into eight codes:

- **a)** Satisfactory
- **b)** Irregular accounts for which safety was not doubted
- **c)** Viable under nursing
- **d)** Non-viable/ sticky
- **e)** Advances recalled
- **f)** Suit filed
- **g)** Decreed debts which mean accounts with major irregularities
- **h)** Bad and doubtful debts where recovery of the loans is improbable due to the intentional unwillingness of the borrowers or their genuine incapability or due to diminution in the value of the security. The primary drawback of the health code system was lack of objectivity, transparency and uniformity of yardstick for measuring NPAs.

To tide over the deficiencies in the then existing framework, to promote transparency, to compete with best international practices, prudential norms related to asset classification and provisioning was implemented by RBI during 1992-93, in line with the recommendations of Narasimhan Committee I. The norms were quantified and objective enough to make a valuable assessment of NPA. As per RBI, Master Circular, 2014, RBI Prudential Norms, an asset becomes an NPA when it fails to honour the service or the payment regularly. The definitions underwent revisions in a phased manner.

Erstwhile classification of NPAs

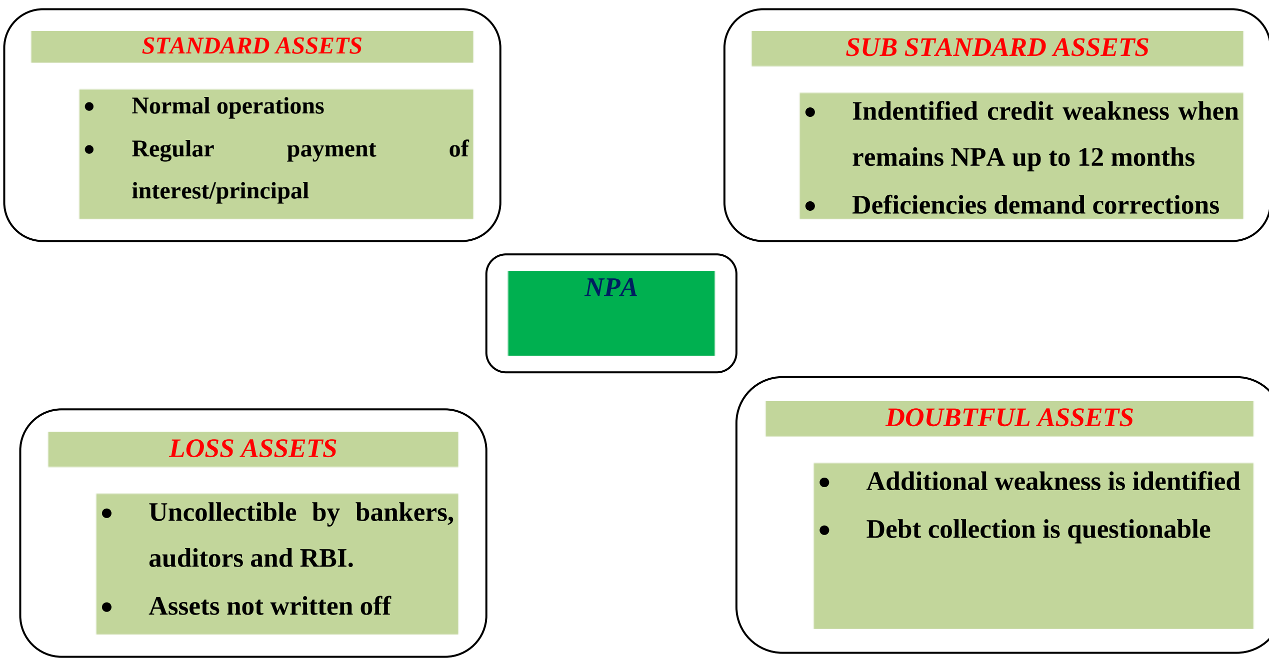
Table No. 1: Classification of NPAs

From the year ending 1995	If due for 30 days for 2 quarters
From 31st March 2001	If overdue for 180 days
From 31st March 2004	If overdue for 90 days

Source: www.rbi.org

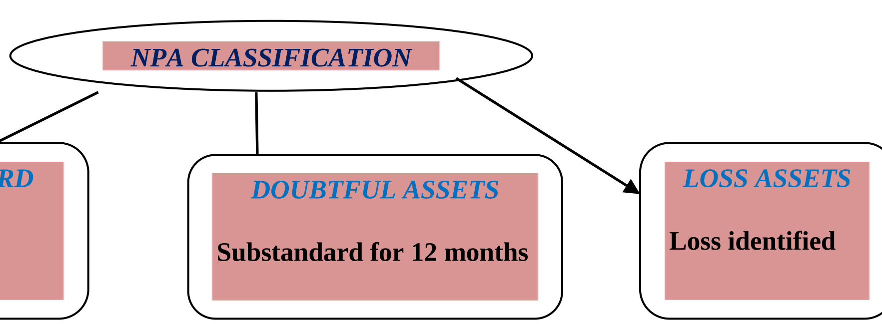
NPAs are classified into the following categories:

Diagram 1: Categories of NPAs



With effect from 31st March 2005, the objective criteria for NPA classification into three categories are diagrammatically provided as follows:

Diagram 2: Three Categories of NPAs



2.6.2 Modern Classification of NPAs

With respect to RBI/2017-18/131 DBR.NO. BP. BC101/21.04.048/2017-18, Resolution of SA –revised framework, lenders can identify the incipient stress in the loan assets immediately after the default by classifying the SA as Special Mention Accounts (SMA) as per the following categories:

Table No. 2: Categories of SMA

SMA	OVERDUE PRINCIPAL OR INTEREST OR OTHER AMOUNT
SMA 0	1-30 Days
SMA 1	31-60 Days
SMA 2	61-90 Days

Source: www.rbi.org

Present scenario:

With the above methodology of NPA classification the banks were able to hide the erosion of capital though the projection of mushrooming NPA came to the light. The error in the loan loss provisioning underwent a tremendous change in the recent past and RBI floated a circular to shift the process of classifying the loan assets in a much-coveted way even at the cost of the hard hit to the capital. International Accounting Standard Board and other accounting standard setters devised principles-based standards for the banks to recognize their loan assets and provide for their credit loss with an immediate effect for financial statement reporting under the spectrum of IFRS-9. In this case the banks are supposed to consider the expected credit loss (ECL) model as a forward-looking approach by analysing the past events, characteristics of the borrowers at every reporting date to reflect the changes in the assets' credit risk.

Formula:

The formula to be used by the banks under the ECL model is as follows:

ECL=EAD*PD*LGD

Where ECL=Expected credit loss, EAD=Exposure at default, PD= Probability of default and LGD=Loss given default. Following the above-mentioned formula, the loan impairment of the banks will be in three different levels. They are:

TABLE 3: LOAN IMPAIRMENT STRUCTURE UNDER ECL MODEL

Stage	Type of Loan	Type of Loss Allowance	Revenue recognition
1.	When the loan is just forwarded to the borrower. For the existing loan amount with no significant increase in credit risk at the time of initial recognition.	a. Defaults possible in the upcoming 12 months are to be recognized under 12-month ECL model. b. Loss allowance is also established. a. The same above 12- month ECL method is followed for the existing loan type on the reporting date	Interest revenue is calculated on the gross carrying amount of loan without the deduction for ECL.
2.	When the credit risk of the loan has got increased significantly since initial recognition and become lower	Lifetime ECL will be considered.	Interest revenue is calculated on the gross carrying amount of loan without the deduction for ECL
3.	When the risk has increased in the loan to the extent where it has become credit impaired	Lifetime ECL will be considered.	Interest revenue is calculated on the gross carrying amount of loan without the deduction for ECL

Source: Authored

ECL is the expectation of the banks on the possibility of the shortfalls in the collection of contractual cash-flows. 12-months ECL does not refer to the shortfall in cash in the coming 12 months but it is the effect of the entire credit loss of the loan over its loan life. This shortfall is weighted by probability to assure that this loss would appear in the next 12 months.

Lifetime ECLs are the episodes where the borrowers are defaulting for the lifetime and defaults are the expected present values of losses. These losses are the weighted average credit losses with the probability of default.

Disclosure:

Banks are under the compulsion to disclose the information explaining the rationale behind the ECL calculations, method of the measurement and the process of assessment of the credit risk. Further-more, the banks also need to produce the facts and figures of opening and closing ECLs, carrying values of the associated assets separately for different categories of ECL.

Impact of the ECL provision:

The commercial banks in India as a result of implementing the ECL technique can resort to a simplified and strategic credit discipline platform which in turn can enable the banks to measure the associated credit risks appropriately and can instil financial stability in the system. *The private and public sector banks in India would be under the requirement of designing own models for credit risk management as a result of embracing the ECL approach. The various exposures to various risk weighted segments would result in generation of various types of defaults and therefore the commonality in the recognition of loan losses would be detrimental to the maintenance of the reputation of the banks. Banks will enjoy the privilege of devising own credit management tools to arrest the same.*

Role of the Cost and Management Accountants (CMAs) in the current framework:

The CMAs strategically focus on performance management, risk management, credit monitoring and also extend their services in reduction and controlling of costs. In the light of implementation of the ECL framework with the sole objective of imposing credit discipline the CMAs can be instrumental in credit processing, collateral evaluation, project analysis and credit monitoring. As no method would suffice the requirement if the root is undiagnosed and remain untreated, therefore the CMAs can unearth the stressed assets by adopting the cost and management techniques, by making the effective use of appropriate data analytic tools. On a whole, the banks would be immensely benefitted by the services of CMAs as they can review the entity's cost accounting system, cost control system, cost flow, efficiency of operations, possibility of reengineering the business processes and value chain process to reorganize for a sustainable future. *CMAs being expert in the credit analysis can be best suited for critical examination of the diverse segmental exposures to check the veracity of the loan utilization in tune with the realistic requirements of the industry. These supervisions would bring into light the propensity of the borrowers to default in future payments and by availing the expertise of the CMAs the banks can map the recognition of loan losses.*

Conclusion:

Basel committee on Banking Supervision identified the correlation between capital and provisions and therefore timely recognition and also immediate provisioning of the credit losses would promote the safety and integrity of the banking system. ECL provision would be beneficial to the commercial banks at large in the future days and the same can be made applicable to the Tier 3 and 4 cooperative banks too.

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Multi-State Cooperative Societies

CMA Manmohan Sahu
MSME Consultant & Financial Advisor
Hyderabad

Abstract:

Minister of State Co-operation Shri B L Verma had moved the Multi-State Cooperative Societies (Amendment) Bill, 2023, for consideration and passage in the Rajya Sabha. The Bill, approved by the Lok Sabha on July 25, 2023, was passed in the Rajya Sabha.

The Multi-State Cooperative Societies (Amendment) Bill 2023, which seeks to Strengthen Co-operatives by making their functioning more transparent, introducing a system of Regular Elections and prohibiting the Appointment of Related Persons etc. The Legislation is important, Well Drafted and Will Fulfil the Needs of Crores of People in the Country. Agriculture is the Need of the Hour, and the Bill allows Collective Bargaining of Agricultural Farmers.

All co-operative societies, with objects not confined to One State, and serving the interests of members in **more than one state** come under its purview. The National Agricultural Co-operative Marketing Federation, Indian Farmers Fertilisers Cooperative, AMUL, British Council are some **prominent examples**. According to the Ministry of Co-operation data, 1,401 multi-state Co-operative Societies have been Registered since 1986. Of them, 250 MSCS were registered in 2014 alone, which is the highest in a calendar year, so far, followed by 247 in 2012. As many as 125 Multi-State Co-operative Societies have been Registered since 2019. Approximately, **Half the Registered Societies under the MSCS Act 2002 fall under the Credit Sector**. These include 67 Co-operative Banks as well. Agriculture, Housing, Dairy are the other Prominent Sectors.

'Co-operative Sector for 5-Trillion-Dollar Economy'. India's Target of becoming a 5-Trillion-Dollar Economy cannot be achieved without the Progressive Role of the Co-operative Sector. As per the data published by the NCUI, there are about **8.6 lakh** Co-operatives in the Country, out of which active Primary Agricultural Cooperatives (PACs) are around **63,000**. The Government decided to Establish Three New Multi-State Co-operative Societies to promote Organic Products, Seeds and Exports. Co-operative Sector can spur jobs as the government is strengthening the Co-operatives by expanding their sphere of work into other areas like LPG and Petrol Pump Dealerships etc.

The Success Stories of Co-operatives like Amul, IFFCO, NAFED, KRIBHCO and Lijjat Papad, as well as those driving the Co-operative Movement in India.

'One for All, All for One': Co-operatives form the Backbone of the Indian Rural Economy with the motto "One for All, All for One".

Highlights of Multi-State Cooperative Societies (Amendment) Bill 2023:

The Key Provisions of the Multi State Co-operative Societies (Amendment) Act, 2023 are as follows:

- ✓ The bill provides for Norms for the Appointment of Employees, which ensures that there are **no nepotism practices**. The recruitment of employees at various levels would be carried out through a transparent, objective and adequately publicized competitive process as per the educational and experience criteria specified in the bye-laws of the society. The person to be appointed as Chief Executive of a Non-credit multi-State co-operative society shall satisfy the following criteria viz., shall be a Graduate or have a Diploma or equivalent in Co-operative Business Management, Agri-business Management, Dairy Sector Management, Fisheries Management, Finance, Chartered Accountancy, Cost Accountancy, Law, Commerce, Science, Humanities, Technology or any other relevant discipline; and at least Three Years' work experience in the Co-operative Sector.
- ✓ Constituting an Election Authority. The Bill seeks to establish a 'Co-operative Election Authority' with a view to introduce **Electoral Reforms** in the Co-operative Sector. It will consist of a Chairperson, Vice-chairperson and Members **not exceeding** Three to be Appointed by the Central Government.
- ✓ As per the statement of Objects and reasons of the Bill, a New Clause has been inserted to set up Co-operative Rehabilitation, Reconstruction and Development Fund for the **Revival of Sick Multi-State Co-operative Societies**. The establishment of the Co-op Rehabilitation and Reconstruction Fund in which Multi State Co-operatives have to Contribute **0.005 to 0.1 percent** of their Net Profits. This fund would be utilized for the purpose of helping out Sick Co-operatives.
- ✓ The Bill also provides for **Concurrent Audits** for Multi-State Co-operative Societies, a Mechanism for redressal of Complaints, and the Appointment of One or More **Co-operative Ombudsmen** and **Co-operative Information Officers**.

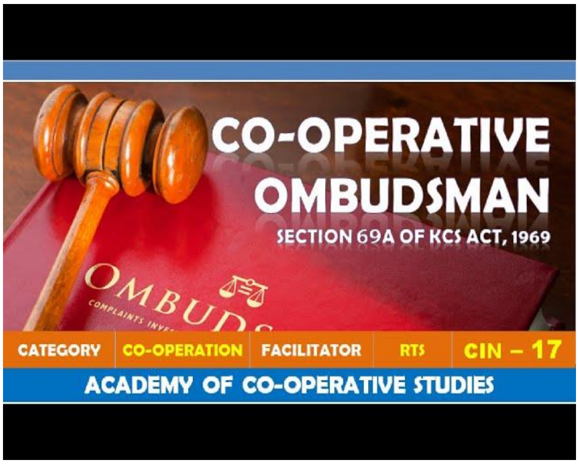
- ✓ Further, it Provides for an increase in **Monetary Penalties** that will be imposed on these Societies in case of Contravention of the Provisions.

- ✓ Another provision is for the **Filing of Applications**, Documents, Returns, Statements, and Statements of Accounts in Electronic Form. Extension of time limit for Annual Accounts submission to May 15.
- ✓ The Bill entails Strict Provision for **Transparency**, and exuded Confidence that Financial Irregularities in Co-operative Societies will be Corrected.
- ✓ The Bill will **Strengthen Co-operatives**, and make them more Transparent and Accountable.
- ✓ The Bill requires the presence of **One-third of Members for approving any Big Decision**, the Provision should be tweaked to peg that requirement to at least 50 per cent of the Board. The presence of at least 50 per cent of the Board for taking major decisions will ensure that Chairman MD and Two Directors can't come together to take Decisions against the Interest of Farmers.
- ✓ **CE** should call a Board meeting if one fourth of Board members' demand. CE who attains the age of 70 cannot continue as the **Chief Executive** but he may continue beyond 70 with the prior approval of the **Central Registrar** and by passing a special resolution in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such persons.
- ✓ The provisions of the **Bill will drive a Co-operative Revolution**, Facilitate Ease of

- ✓ Business, and bring Transparency and Electoral Reforms.
- ✓ The Bill will make the Co-operative **movement more** Strong and more Transparent.

The Other important highlights of the Bill are:

- ≈ The Multi-State Co-operative Societies in the thrift and credit business **shall be categorized** on the basis of **their deposits into Micro, Small, Medium and Large Categories**.
- ≈ No multi-State Co-operative Society shall grant loan or make advances **against the security of its own shares**.
- ≈ Every **Multi-State Co-operative Society** shall credit a sum calculated at one per cent of its net profits every year as contribution, within six months from the closing of the relevant financial year, towards the account of the **Co-operative Education Fund**, maintained by the Central Government. The Secretary, the Ministry of Cooperation will be the Chairperson of the Co-operative Education Fund.



- ≈ The Central Government May Appoint **One or more Co-operative Ombudsman**, to carry out the functions entrusted to such Ombudsman under provisions of the Act and the Central Government shall notify the territorial jurisdiction of each Ombudsman so appointed.

- ≈ A Member who desires to obtain information under Sub-section (1) of section 106 of the Act, shall make an application in writing or **through electronic means** to the Co-operative Information Officer. The application fee, other charges for supplying the information and manner of payment shall be such as prescribed under the provisions of the Right to Information (Regulation of Fee and Cost) Rules, 2005.

To Conclude, India Promises 'New Era' for Multi-State Co-operatives and the Bill amends the Multi-State Co-operative Societies Act, 2002. It establishes the Co-operative Election Authority to conduct and supervise elections to the boards of multi-state co-operative societies. A multi-state co-operative society will require prior permission of government authorities before the redemption of their shareholding. A Co-operative Rehabilitation, Reconstruction and Development Fund will be established for the revival of sick multi-state co-operative societies. The Fund will be financed through contributions by profitable multi-state co-operative societies. The Bill allows State Co-operative Societies to merge into an existing multi-state co-operative society, subject to the respective state laws. Sick multi-state co-operative societies will be revived by a Fund that will be financed through Contributions by profitable multi-state co-operative societies. This effectively imposes a Cost on well-functioning societies. Giving the government the power to restrict redemption of its shareholding in Multi-state Co-operative Societies may go against the Co-operative Principles of Autonomy and Independence.

Climate Risk - Banking Sector

Er. Sunil Dasari
Manager (Corporate services)
Bank of Maharashtra, Pune

Abstract:

*About **15 Years Ago**, Banks started to 'Integrate Environmental Risks' into their Credit Risk Management Procedures. Banking Sector Focusing on the Analysis of the 'Integration of Environmental Risks' into all phases of the:*

- ✓ *Credit Risk Management.*
- ✓ *Rating.*
- ✓ *Costing.*
- ✓ *Pricing.*
- ✓ *Monitoring etc.*

Integration of Environmental Risks into the 'Whole Credit Risk Management Process' is important because only then is 'Adequate Risk Management Guaranteed'.

Banks Integrate Environmental Risks, especially into the Rating Phase, but not in all Phases of the Credit Management Process, though this is Recommendable because these Risks influence all Phases of the Credit Management Process.

Climate change is not a threat in the distant future, but a **present-day emergency** that is already threatening lives, livelihoods and economies. The global climate crisis is driving more frequent and intense floods, heatwaves, droughts, and storms. The number of these extreme weather events have quintupled in the last fifty years, with projections that climate related disasters could reach up to 560 each year (or 1.5 per day) by 2030. These climate shocks affect food-insecure people disproportionately, destroying crops, livestock and vital infrastructure.

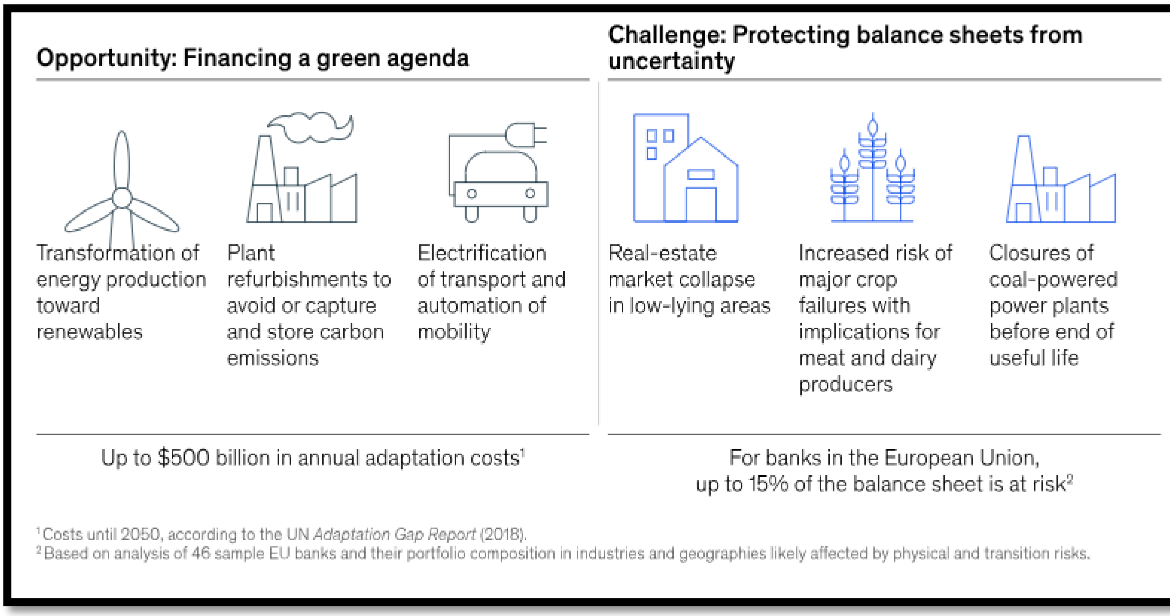
More than Regulatory Pressure is driving Banks to Manage Climate Risk. Financing a Green Agenda is also a Commercial Imperative-but Specialized Skills are needed to Protect Balance Sheets of Banks.

Climate Change Creates Opportunities and Challenges for the Banking Industry:

Disruptive Physical Impacts will give rise to Transition Risks and Opportunities in the Economy, including shifts in demand, the development of new energy resources, and innovations arising from the need to tackle emissions and manage carbon, as well as necessary reforms in food systems.

Sectors that will bear the brunt include Oil and Gas, Real Estate, Automotive and Transport, Power Generation, and Agriculture.

In Oil and Gas, for Example, Demand could fall by 35 percent over the Next Decade. The Good News is that these changes should also precipitate a Sharp decline in Emissions.



(Source: McKinsey & Company)

Types of Environmental Risks and its impact on Economy / Banking Sector:

a) Extreme Weather Events (Tropical Cyclones / Typhoons):

≈ 'An NBER Study' shows that in the US, Cyclone events will generate a Long-term Disturbance that will reduce **7.4% of GDP** Growth in 20 years, equivalent to off-setting **3.7 Years** of Average Development.

≈ Another Study by 'Blackrock' shows that Physical Exposure of Properties to Hurricane Damage will Rise by **as much as 275% by 2050** due to the Higher Frequency and Intensity of Hurricanes.

≈ '**A CICERO Report**' States, Hurricane Harvey in Texas caused **$125 Billion in Damage in Total by Sectors**, an Outage Peak of 10,000 MW of Electricity Capacity, Oil Production Declined by 21% and Industries had to Close Down for about One Week, Port Traffic was delayed for More than a Week, **107 Deaths occurred and about 50,000 Homes** were Destroyed.

Impact on Banking Sector:

≈ Climate change Exacerbates the Intensity and Frequency of Tropical Cyclones/Typhoons (Physical Risk);

≈ Higher Intensity and Frequency of Tropical Cyclones/Typhoons lead to more Severe Damages to Real Estate Assets located in Coastal Areas, reducing the **Value of Properties** (Market Risk);

≈ Lower Property Values Reduce Collateral Values of Mortgage Loans, and Increase **Loss Given Default** (LGD);

≈ **Lower Collateral Values** of Mortgage Loans and Disruption to Economic Activities (e.g., Income) due to extreme weather events Increase Mortgage

- Default Rates, and Higher Default Rates and LGD increase **Expected Losses of Banks** (Credit Risk);
- For Insurers that provide Property Insurance for Real Estate Assets in Coastal Areas, Larger-than-expected Damage Losses of the Property could Result in Unexpectedly High Claims (Underwriting risk).

b) Extreme Weather Events-(Floods):

- According to '**Accenture**', 30% of Companies Surveyed Attributed 5% of their Lost Revenue to the Disruption of their Supply Chains.

- Another study by '**Zurich Group**' Revealed that 51% of Supply Chains were affected by Adverse Weather over the Past Year.
- 49% of Businesses Lost **Productivity from such Disruption**, while their Costs Increased by 38% and their Revenue Decreased by 32%.
- **Thailand's** Automobile and Electronic Manufacturing Sector was **Completely Halted**, making up 80% of the Total Economic Loss in the Country.
- Most **Factories Stopped Production** for Over 30 days, Disrupting Supply Chains and Reducing Annual Automobile Production by 20%.
- 17.5% of the Factories were **Completely Destroyed** and could **not** Resume Operations.
- This led to "Toyota and Honda" losing almost 60% of Net Profits in 2011 compared to the Previous Year.

Impact on Banking Sector:

- Floods Disrupt Supply Chains and Plant Operations of some **Non-financial firms** (e.g., Due to Power and Transportation Disruption) that are Banks' Clients, or Threaten Banks' Business Continuity by Damaging their Buildings (**Operational Risk**);
- Business Disruptions Reduce Revenue and Increase Repair/Maintenance Costs, thus reducing the **Profit of the affected Non-financial Firms**;
- Reduced Revenue and Profit of these firms Weaken their Ability to Repay Bank Loans and Increase **Loan Default Rates and LGD** (Credit Risk).
- Insurers that provide "**Flood Insurance**" may be under Pressure to Liquidate Assets at a Loss to cover claims due to Major Flooding (**Liquidity Risk**).

c) Public Policy Change of Different Countries (Pollution Control Regulations):

- London just launched **Ultra Low Emission Zone**, which Imposes a Daily Charge on Vehicles failing to meet Environmental Standards. The Government claimed this action will reduce NOx Emissions by 45%.

- In **Australia**, Water Service Providers **Charge Residents an Extra 300% fee** on Sewage Disposal in addition to Daily Water Usage Fees.
- In **China**, a Tough Regulatory Package was introduced to '**Fight Air and Water Pollution**', by Shutting Down most **Coal-burning Facilities** in Urban Areas, requiring the mandatory installation of desulfurization and denitration devices for Coal-fired Power Plants, upgrading fuel quality, and increasing levies on pollutants.
- The **US** has established laws through the **Resource Conservation and Recovery Act** (RCRA), with the ambition to control the production, usage, recycling, and disposal of solid waste, especially for monitoring the "**Cradle-to-Grave**" Management of Hazardous Waste.
- In the 1990s, **Europe** launched a Series of Regulations on **Extended Producer Responsibility** (EPR) (i.e., Producers are required to fulfil collection targets and ensure that the end-of-life electronic equipment collected is channelled for proper recycling and disposal) to minimize solid waste and promote resource efficiency.
- Recently, **EU Member States** approved a set of "**Ambitious Measures**" to increase the Recycling Rate of Municipal Waste. They set up a timeline to achieve the progressive targets: by 2025, they aim to enhance the Municipal Recycling Rate up to 55%, by 2030 by 60%, and by 2035 by 65%.
- The **Singapore Government** has announced a regulated **e-waste management system** from 2021 to ensure that electrical and electronic waste (e-waste) is managed effectively and efficiently through an EPR Approach.
- In the **US**, 32 States have issued over **70 Independent Laws** on EPR Approaches; their Effectiveness Varies among different States and Sectors.
- According to Statistics from the **Carbon Tax Center**, Some Countries have Imposed Taxes (e.g., Carbon Tax in Chile, Japan, and South Africa) and Levies on Carbon Emissions or Activities that are carbon intensive, and several countries/regions employed **Carbon Trading Schemes** (e.g., Europe and China) to contain carbon emissions.
- The IEA further predicts that Carbon Price could rise beyond $150/Ton by 2040 under the 2°C Scenario.
- The French Energy Transition for Green Growth Law (or **Energy Transition Law**), Adopted in August 2015, sets out a Pioneering Roadmap to Mitigate Climate Change and diversify the energy mix.
- Besides including Ambitious Targets around reducing **GHG Emissions** and overall energy consumption, the law also put forward a new set of regulations on carbon reporting, i.e., Financial Investors and Institutions are Required to Report their Financial Risks Associated with Climate Change.

- There are many examples of Governments from Across the Globe Promoting Renewable Energy and **Electric Vehicles**.
- In order to "**Green**" the Auto Industry, Norway (by 2025), India (by 2030), France, and the UK (by 2040) have announced Schedules for the Termination of Vehicle Sales with Internal Combustion Engines.

- Energy Transition Policies may include Measures (e.g., **Carbon Tax / Pricing Scheme**) to Limit Utilization of Fossil Fuels (Transition Risk);
- These Measures may result in **Higher Costs for Oil & Gas Companies**, Coal Mining Companies, and Coal-fired Power Producers, meanwhile Reducing Market Demand for their Products;
- Higher Costs and Reduced Revenues cut Profits and reduce the future Cash Flows of these Companies;
- From a Financial Institutions / Banks Perspective, these result in Lower Asset Valuation (Market Risk) and/or Higher Loan Default Rates and LGD of Carbon-intensive Companies (Credit Risk).

Impact on Banking Sector:

- 'Market Sentiment Towards Carbon-intensive Assets' could change Suddenly (Transition Risk) due to the '**Introduction of New Climate Policies**' such as Carbon Taxes, Carbon Trading Mechanisms, Reduction in the Quota for Fossil Fuel Energy, Regulatory Restrictions on Fossil Fuel Financing, and New Technology Developments in the Form of a Sharp Decline in Renewable Energy Costs and Energy Saving Technologies.

- ≈ For Financial Institutions / Banks, such Sentiment Shifts could lead to a Sudden Decline in the Price / Valuation of Carbon-intensive Assets they hold (**Market Risk**).
- ≈ For Banks, such a Decline in Price / Valuation could increase the Default Risk and **LGD** if these Assets are held as Loan Collaterals (**Credit Risk**);
- ≈ It may also result in Difficulties in Selling such Assets by FIs / Banks (**Liquidity Risk**).

Conclusion:

Banks and the Banking System are exposed to '**Climate Change**' through Macro and Microeconomic transmission channels that arise from 'Two Distinct Types' of Climate Risk Drivers.

- ○ **First**, they may suffer from the 'Economic Costs and Financial Losses' resulting from the increasing Severity and Frequency of Physical Climate Risk Drivers.
- ○ **Second**, as Economies seek to reduce Carbon Dioxide Emissions, which make up the vast majority of Greenhouse Gas (GHG) Emissions, these efforts generate 'Transition Risk Drivers'.

These arise through changes in Government Policies, Technological Developments, or Investor and Consumer sentiment. They may also Generate Significant Costs and Losses for Banks and the Banking System.

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Outsourcing of IT Services in Banks

(Risk Mitigation Areas)

Shri M. Rajesh
Asst. General Manager (IA)
State Bank of India
Internal Audit Department
Circle Audit Office, Pune

Abstract:

*With the penetration of the Internet in India, Newer and More efficient technologies are being built and these dynamic technologies are being leveraged by various sectors of the economy, and the financial sector is one of them. Financial Institutions have **extensively been outsourcing** their IT Services requirements to **Third Parties** in order to get easier access to Newer Technologies. In this Process of availing the services of a Third Party, Financial Institutions expose themselves to Significant Financial, Operational, and Reputational Risk.*

Outsourcing may be defined as a Bank's use of a Third party (either an affiliated entity within a Corporate Group or an Entity that is External to the Corporate Group) to perform activities on a Continuing Basis (including Agreements for a Limited Period), that would normally be undertaken by the Bank itself, now or in the future.

Regulated Entities (REs) have been extensively leveraging Information Technology (IT) and IT enabled Services (ITeS) to support their Business Models, Products and Services offered to their customers. REs also outsource substantial portion of their IT activities to third parties, which expose them to various risks.

In order to ensure effective management of attendant risks, the Statement on Developmental and Regulatory Policies dated February 10, 2022, proposed the issuance of suitable regulatory guidelines on Outsourcing of IT Services.
The underlying principle of these RBI Directions is to ensure that outsourcing arrangements neither diminish REs ability to fulfil its obligations to customers nor impede effective supervision by the RBI. These requirements, shall come into effect from October 1, 2023.

Role and Responsibility of IT Function in Outsourcing Process:

- ✓ **Assisting** the 'Senior Management' in Identifying, Measuring, Mitigating and Managing the level of IT Outsourcing Risk in the Organisation.
- ✓ **Ensuring** that a Central Database of all IT Outsourcing arrangements is maintained and is accessible for review by Board, Senior Management, Auditors and Supervisors.

- ✓ Effectively **Monitor and Supervise** the outsourced activity to ensure that the service providers meet the laid down Performance Standard and provide uninterrupted services, and report to the Senior Management; Co-ordinate periodic Due Diligence and highlight concerns, if any.

- ✓ Putting in place necessary **Documentation** required for contractual agreements including Service Level Management, monitoring of vendor operations, Key Risk Indicators and classifying the Vendors as per the determined Risk.

Due Diligence of Service Provider:

- ≈ Past Experience and demonstrated **competence to implement** and support the proposed IT activity over the Contract Period.
- ≈ **Financial Soundness** and ability to Service Commitments even under adverse conditions.
- ≈ Business **Reputation and Culture, Compliance**, complaints and outstanding or potential litigations.
- ≈ **Conflict of Interest** (If any).
- ≈ **External Factors** like Political, Economic, Social and Legal environment of the jurisdiction in which the Service Provider operates and other events that may impact data security and service performance.
- ≈ Details of the **Technology, Infrastructure Stability**, Security and Internal Control, Audit Coverage, Reporting and Monitoring Procedures, Data Backup arrangements, Business Continuity Management and Disaster Recovery Plan.
- ≈ **Capability** to Identify and Segregate Regulated Entities Data.
- ≈ **Quality of Due Diligence** exercised by the service provider with respect to its Employees and Sub-contractors.
- ≈ Capability to **Comply with the Regulatory and Legal requirements** of the Outsourcing of IT Services arrangement

- ≈ **Security Risk Assessment**, including of the Technology Assets Administered by the Service Provider.

- ≈ Ensuring that **Appropriate Controls**, assurance requirements and Possible Contractual arrangements are in place to Establish Data Ownership.
- ≈ **Ability** to effectively service all the Customers while Maintaining Confidentiality, especially where a Service Provider has exposure to Multiple Entities; and
- ≈ Ability to **Enforce Agreements** and the Rights available thereunder including those relating to aspects such as Data Storage, Data Protection and Confidentiality.

Outsourcing Agreement: The Key areas that should be covered in Outsourcing agreement with Third Parties are:

- ✓ **Definition** of the IT Activity being outsourced, including appropriate service and performance standards including for the Sub-contractors, if any.
- ✓ **Effective Access** by the Regulated Entity (RE) to all Data, Books, Records, Information, Logs, Alerts and Business Premises relevant to the Outsourced Activity, available with the service provider;
- ✓ **Continuous Monitoring** and Assessment of the Service Provider by the RE, so that any necessary corrective measure can be taken immediately, including termination clause and minimum period to execute such provision, if deemed necessary.
- ✓ **Type of Material Adverse Events** (e.g., data breaches, denial of service, service unavailability etc.) and incident reporting requirements to the RE to take prompt risk mitigation measures and ensure compliance with statutory and regulatory guidelines.
- ✓ **Compliance** with the provisions of **IT Act**, other applicable legal requirements and standards to protect the customer data.

- ✓ The deliverables, including **Service-Level Agreements (SLAs)** formalising performance criteria to measure the quality and quantity of service levels.
- ✓ **Storage of Data** (as applicable to the concerned REs) only in India as per extant regulatory requirements.
- ✓ Clauses requiring the Service Provider to provide details of data (Related to RE and its Customers) Captured, Processed and Stored.
- ✓ Controls for maintaining **Confidentiality of Data** of RE's and its Customers', and incorporating Service Provider's Liability to RE in the event of security breach and leakage of such information.
- ✓ Types of **Data / Information** that the Service Provider (Vendor) is permitted to share with RE's Customer and / or any other Party.
- ✓ Specifying the **Resolution Process**, events of default, Indemnities, Remedies, and Recourse available to the respective parties.

- ✓ Contingency Plan(s) to ensure **Business Continuity** and Testing requirements.

- ✓ **Right to Conduct Audit** of the service provider by the RE, whether by its **Internal or External Auditors**, or by Agents appointed to act on its behalf, and to obtain copies of any Audit or Review Reports and findings made about the service provider in conjunction with the services performed for the RE.
- ✓ **Right to Seek Information** from the Service Provider about the Third Parties (in the Supply Chain) engaged by the former.
- ✓ **Recognising the Authority of Regulators** to perform Inspection of the Service Provider and any of its Sub-contractors. Adding Clauses to allow RBI or person(s) Authorised by it to access the RE's IT Infrastructure, Applications, Data, Documents, and other necessary information given to, Stored or Processed by the Service Provider and / or its Sub-contractors in relation to the Outsourcing Arrangement.
- ✓ Including **Clauses making the Service Provider** contractually liable for the performance and Risk Management Practices of its Sub-contractors.
- ✓ **Obligation** of the Service Provider to comply with Directions Issued by the RBI in relation to the activities of the RE outsourced to the Service Provider.
- ✓ Clauses requiring **Prior Approval / Consent** of the RE for use of Sub-contractors by the service provider for all or part of an Outsourced activity.

- ✓ **Termination Rights** of the RE, including the ability to orderly Transfer the Proposed IT - Outsourcing Arrangement to another service provider, if necessary or desirable.

- ✓ **Obligation of the Service Provider** to Co-operate with the relevant authorities in case of Insolvency / Resolution of the RE.
- ✓ Provision to consider Resources of Service Provider who provide Core Services as "**Essential Personnel**" so that a limited number

of staff necessary to Operate Critical Functions can work On-site during Exigencies (including pandemic situations) and

- ✓ Clause requiring Suitable **Back-to-Back arrangements** between Service Providers and the Original Equipment Manufacturers (OEMs).

Conclusion: The world over, Banks are increasingly using outsourcing as a means of both reducing cost and accessing specialist expertise, not available internally and achieving strategic aims. In keeping with this international trend, banks in India too have been extensively outsourcing various activities. Such outsourcing activities results in banks being exposed to various risks. Further, the outsourcing activities are to be brought within regulatory purview and the interests of the customers have to be protected.

References:

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Rupee, as a part of IMF's SDRs, Shall Be a Game Changer

Shri Hargovind Sachdev
Former General Manager
SBI

A RBI panel has suggested that India has achieved a higher level of trade linkages with other countries, as a result of which the rupee is likely to reach a level where it would facilitate the currency's inclusion in the International Monetary Fund's (IMF) Special Drawing Rights (SDR) basket. The panel, whose report on the 'Internationalisation of Rupee' was released recently, said that in the coming days, "India will achieve a higher level of trade linkages with other countries and improved macro-economic parameters, and rupee may ascend to a level where other economies would widely use and prefer it as a 'vehicle currency'.Thus, efforts should be made to include the rupee in IMF's SDR basket".

SDR is an international reserve asset created by the IMF to supplement member countries' official reserves. It is a potential claim on the freely-usable currencies of IMF members.SDRs can provide a country with liquidity, acceptance and growth.

The existing basket of currencies includes the US dollar, Euro, Chinese Yuan, Japanese Yen and British Pound. With India as the fifth largest economy, the Indian Rupee should soon find its place in this esteemed club to actualise its true potential.

The SDR is a supplementary foreign exchange reserve for member countries. Including a currency in the International Monetary Fund's (IMF) Special Drawing Rights (SDR) basket brings several benefits to the country whose currency is a part of the global financial system. The benefits of having a currency included in the SDR basket are:

Increased Global Demand: Inclusion in the SDR basket elevates the currency's status internationally, leading to increased demand from central banks and global investors. The currency's value and attractiveness boost in foreign exchange markets.

Currency Stability and Credibility: Being part of the SDR basket signals that the currency and the country's monetary policies are considered stable and credible. It enhances confidence in the country's economy and attracts foreign investments.

Diversification of Reserves: Many central banks hold reserves in the form of SDRs, and inclusion in the SDR basket allows countries to diversify their foreign exchange reserves. The step mitigates risks associated with having significant amounts of any single currency.

Enhanced Trade and Investment: A currency's inclusion in the SDR basket can facilitate international trade and investment by reducing currency exchange rate risks and transaction costs.

Financial Market Access: Countries with their currencies in the SDR basket gain improved access to international financial markets. The recognition reduces the borrowing costs for that country's government and private sector entities.

IMF Lending and Support: If a country faces financial difficulties, inclusion in the SDR basket may make it easier to access IMF financial assistance. This assistance helps stabilise the country's economy during times of crisis.

Prestige and Recognition: Being part of the select group of currencies in the SDR basket bestows a sense of prestige and recognition on the country's monetary and economic policies. It enhances the country's standing in the global financial community.

Support for Monetary Policy: Inclusion in the SDR basket provides policy flexibility for countries and allows them to use SDRs as part of their foreign exchange reserves or in settling international transactions.

Overall, inclusion in the IMF's SDR basket can bring significant advantages to a country's currency and economy, enhancing global financial stability and cooperation.

However, it's worth noting that being included in the SDR basket involves meeting specific criteria and undergoing a thorough assessment by the IMF, as the SDR comprises only the most widely used and freely usable currencies globally. The composition of the SDR basket is reviewed periodically by the IMF to ensure its relevance and effectiveness. Presently, the SDR basket includes the US dollar (USD), Euro (EUR), Chinese Yuan (CNY), Japanese Yen (JPY), and British pound sterling (GBP). The Ukraine war has enhanced the acceptance of the Indian Rupee by more than fifty countries, making it the most eligible currency to enter the Special Drawings Rights basket of the International Monetary Fund.

The Reserve Bank of India has endeavoured significant steps to boost the acceptance of the INR worldwide. The panel or the inter-departmental group of RBI suggested designing a template and adopting a standardised approach for examining bilateral and multilateral trade arrangements for invoicing, settlement and payment in rupee. Efforts continue to enable the rupee as an additional settlement currency in multilateral mechanisms in the Asian Clearing Union (ACU).

The regulator is facilitating a local currency settlement (LCS) framework for bilateral transactions in local currencies and operationalising bilateral swap arrangements with the counterpart countries in local currencies. Opening rupee accounts for non-residents (other than nostro accounts of overseas banks) both in India and outside India is encouraged. Integrating Indian payment systems with other countries for cross-border transactions is being implemented. The RBI is strengthening financial markets by fostering a global rupee market and promoting India as the hub for rupee transactions and price discovery.

Further, the recalibration of the Foreign Portfolio Investor (FPI) regime, rationalising the extant Know Your Customer (KYC) guidelines and providing equitable incentives to exporters for rupee trade settlement improves the acceptance of INR worldwide.

International use of Real Time Gross Settlement (RTGS) for cross-border trade transactions and including the rupee as a direct settlement currency in the Continuous Linked Settlement (CLS) system has enhanced the utilisation further. The recent acceptance of UPI in France and other advanced economies has boosted the prospects of the Indian Rupee.

Examining taxation issues in financial markets to harmonise tax in India and other economic centres is under process. The synchronisation shall position the Indian Rupee as an international currency. Emerging economies worldwide look towards India for handholding. A strong Rupee shall result in meaningful internationalisation of currency and relationships, establishing India’s well-deserved leadership across the globe.

The steps enumerated above shall frame a roadmap for inclusion in the Special Drawing Rights basket of the International Monetary Fund, resulting in the actualisation of its value at higher levels.

Rightly said," If you want to be rich, aspire to serve more people."

The Challenge of Uniting Trade Based Money Laundering

Ms. Sumitra Raghavan
Credit Head
Bank of Baroda
Bangalore Central

In general, there are three primary mechanisms by which criminals move money to disguise its origin and integrate it back into the formal channels of the economy.

The first mechanism involves moving funds through Financial Institutions through cheques, wire transfers etc.

The second method involves the physical movement of cash, such as cash smuggling and routing bulk cash through Money Service Providers.

And the Third method involves the movement of value through false documentation and declaration of traded goods, and it is popularly called as Trade-Based Money Laundering (TBML)

The Financial Action Task Force (FATF) defines TBML as "the process of disguising crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origin."

It is a highly effective way of integrating large volumes of criminal proceeds with legitimate income. It is attractive to organised crime groups because it is tough to detect, track and investigate due to its transnational nature and the complexity of the international trade system.

According to a policy memo issued by Global Financial Integrity, from 2011- 2021, TBML amounted to approximately over USD60 billion globally.

When TBML goes unchecked, it adversely affects economies and societies, perpetuating criminal activities such as illicit wildlife trade, bribery, corruption, and tax evasion. Additionally, TBML results in revenue losses, especially for developing countries needing help to meet their domestic resource mobilisation targets.

Banks & Financial institutions are exposed to large volumes of money laundering activity.

Methods used in TBML:

Like traditional money laundering mechanisms, TBML uses several complex methods to comingle illicit money with the formal channel of the economy. In its basic form, TBML revolves around invoices.

- *Over & under invoicing:*

This is one of the oldest methods of money laundering technique. Under this method value of transactions on invoices is misrepresented to facilitate the illegal transfer of value across borders. Over-invoicing of imported goods can be used to transfer criminal proceeds out of the country. Alternatively, criminal proceeds are transferred to the country by invoicing the goods or services below the fair market price.

Example: Good faith Limited (Exporter) ships goods worth USD 2 Million to Honest limited but invoices USD 1 million (after colluding with Honest Limited). Honest limited remits USD 1 million to Good faith limited by wire transfer and deposits USD 1 million (difference between market price and invoice value) into the bank account, to be disbursed as per Good faith Limited's instruction.

Alternatively, Perfect limited (Exporter) ships goods worth USD 2 Million to Crazy limited but invoices USD 3 Million (after colluding with Crazy little).

Crazy limited remits USD 3 Million by way of wire transfer. Perfect limited then pay USD 1 million into the

bank account, to be disbursed as per Crazy Limited's instruction.
In the trade transactions mentioned above, there are a few significant points to note. First, the misrepresentation of invoicing would only have been undertaken if the parties agreed to collude.

Second, the entities in the transactions may be related parties.

- *Multiple invoicing:*

The method involves issuing multiple invoices for the same international trade. The parties to trade provide many legitimate justifications for such multiple invoicing.

- *Over Shipment & under Shipment:*

Money launderers can channel funds by manipulating the number of goods shipped. It may also happen that the exporter may not ship the goods at all but collude with an importer to ensure that all shipping documents are processed; such a method is known as "Phantom Shipment".

- *Misrepresentation of goods:*

Money launderers can misrepresent the quality of goods/ description of goods. The exporter may send goods of inferior quality and falsely invoice them as more expensive, thus creating a discrepancy between shipped items & shipping documents.

- *Shell companies:*

Shell companies are those entities that generally do not have economic value and no physical presence. Corporations establish these companies. Primarily to be used as a tool for money laundering. Shell companies may be used to generate fake invoices and bogus loans to facilitate funds laundering. These companies are "put on the shelf" and left dormant for an extended period.

- *Cash incentive business*

A business which is highly cash incentive in nature also accepts criminally derived cash. It claims that all money is received from a legitimate business. It is tough to segregate legitimate earnings and illicit earnings.

Emerging methods of Money Laundering:

Online marketplace & surrogate shopping:

With the increase in e-commerce, internet penetration and the use of smartphones, many online marketplaces have emerged through which individual offers their products & services. Money launderers exploit such platforms to route funds.

Surrogate shopping is also gaining ground as a popular method of TBML. Under this method, a shopper receives a commission for purchasing high-end luxury goods for customers in another country. The trade-in of such goods creates opportunities for money laundering when criminal proceeds are used to fund the purchase of the goods. Misdescription of the goods further allows money launderers to move value between countries.

Payment & Messaging Apps:

Criminals use new-age payment & messaging apps to book rooms in a travel resort or for travel itineraries, turning illicit proceeds into apparently legitimate earnings.

Money laundering through cryptocurrency:

Cryptocurrencies are digital currencies that offer another venue for money launderers to clean their money. The money launderer opens numerous crypto accounts using money mules as frontman. Cryptocurrencies derived from illegal activities are converted into Fiat currency. Similarly, the crypto account transfers crypto currency from crypto exchanges to local bank accounts.

Numerous online gambling and gaming websites accept cryptocurrencies. Virtual chips can be bought with the help of cryptocurrencies. Money launderers will play a few small rounds and cash out after that. But, he will have an explanation for the origin of funds. He can claim that the funds were proceeds from winning online games.

Bitcoin ATMs allow anyone with a credit or debit card to purchase bitcoin. The ATM also accepts cash deposits. Money launderers are increasingly using Bitcoin ATMs to launder illegally obtained money.

Money Laundering through NFTs:

Due to the lack of regulations around the trading of non-fungible tokens (NFT), the risk of money laundering through NFTs is high. Money launderers may exploit the trade and sale of NFTs. For example, a hacker can create a piece of digital artwork and put it on sale in the online marketplace; he will then quickly sell the token and launder the proceeds.

Consequences of money laundering:

Economic consequences:
Money launderers generally target a growing economy for their activity. In such an economy, governments are usually busy handling all growing industries, businesses etc. as such, and there may be other priorities than

fighting money laundering. Money launderers exploit this weakness, and they build their empire in such countries, adversely affecting the integrity of the economy.

Foreign investors may eventually reject to set up factories & business units in such countries, and it will become challenging to create a business-friendly environment in the country.

Business consequences:

Money launderers can offer products below market price because their primary goal is not to earn profit but to launder the funds they have already made through unlawful activity. This makes it difficult for legitimate activities to compete & eventually, such businesses are forced to shut down.

Social consequences:

If Money laundering is not dealt with effectively, it will harm society. Crime can infiltrate and take charge of the entire community. The collective ethical standards of humanity will turn to dust.

Legal Consequences:

Legal risks also stem from a need for regulatory compliance. When a financial services institution is found to be associated with money laundering activity, the firm and critical stakeholders face legal proceedings on the grounds of having a flawed anti-money laundering compliance system. These litigations cost management much time and direct financial costs to defend themselves against the claims.

Real-life cases on Trade-Based Money Laundering (TBML):

1. A company in England signs a contract to export lentils to a company in Australia. The Australian Company prepaid the England Company for the Shipment. Upon receipt of the fund, the English Company immediately transferred the fund to an unrelated third party. The lentils were never exported to the Australian Company.

Inference: In this case, suspicion was raised when the export by the Company of England was inconsistent with regular business activities, and the size of the reported Shipment was also incompatible with the Company's scale of operation.

2. ABC limited exported a relatively small shipment of metal scrap; however, the shipping documents mentioned it as an export of heavy-weighted metals. When the cargo was loaded onboard, the ship customs officer noticed that the hull was still above the water line, which was inconsistent compared to the weighted goods mentioned in the documents. The cargo was examined, and the discrepancy was reported after that.

Inference: The exporter inflated the value of the Shipment to transfer criminal funds

3. A Brazilian group imported counterfeit electronic goods from Asian countries using Letters of Credit and sold them for cash. The group deposited the money in the Bank account and arranged the subsequent issuance of a letter of credit. The round tipping of the transactions continued.

Inference: The criminal group thought that using letters of credit for trade transactions would increase the transaction's legitimacy and reduce their risk of detection.

Reputational Consequences: Trust and integrity are the keys to success for any financial services institution. For financial services institutions, reputational risks include the inability to raise funds at competitive rates and the loss of investors and customer trust, leading to lost business opportunities. Association or rumours of being associated with laundering activities leads to adverse media publicity for financial services institutions with questions about the integrity of the firm and its business ethics. Such negative publicity by the media aggravates the reputational damage for the tainted financial services institutions. The propensity of money launderers to channel dirty money through mainstream and niche financial services institutions exposes these economically important institutions to severe risks. Therefore, national and international regulatory bodies must curb illicit laundering activity and strictly monitor all financial services institutions for any wrongdoing—either deliberate or due to insufficient controls.

Major Red flags to identify TBML:

- Significant discrepancies exist between the description and quantity of the commodity on the bill of lading, invoice and the actual goods shipped.
- The difference in the value of the commodity mentioned in the invoice and the fair market value.
- The weight does not match the contents listed.
- The Shipment is inconsistent with the regular nature of business of the exporter.
- Size of Shipment, inconsistent with the size of the business of the exporter

- The measurement criteria of goods are inconsistent with the general trade practice (Iron rods are generally priced in tons, but invoices may have values on Kgs)
- The trade takes place between countries identified as "high risk" for TBML
- Lack of adequate information about the parties to the trade
- The parties to trade may be unwilling to submit necessary documents upon request
- The routing of the ship is not direct; it is being transhipped through multiple areas
- Goods shipped to a country without the product's need. Example – Sending electronic goods to a country without an electronic industry.
- The method of payment is inconsistent with the general trade practice.
- Example- making 100% advance payment to a new supplier to import goods from a high-risk country.
- Payments are received by way of wire transfers in the Bank account where the exporter has no place of business
- A high volume of cash transactions
- Transactions involving third parties that have no apparent relation with the buyer or supplier
- Transactions involve Shell companies.
- A complex layering of transactions involving multiple entities, multiple methods of payments
- Request for frequent amendment of letter of credit
- Description of goods/ shipment location not inconsistent with the letter of credit
- A high volume of related party transactions
- Goods under trade are those which are popularly used in TBML, i.e. gold, scrap metals, consumer electronics etc.
- Goods represent difficulty in valuation
- Shipment does not make economic sense
- Packing inconsistent with the Shipment
- There are multiple invoices for the Shipment
- The exporter is not having any principal place of business
- Use of Counterfeit invoices
- The customer puts unnecessary pressure to issue a Letter of Credit
- The customer becomes aggressive when any queries are raised
- Not willing to answer the question raised
- The customer changed the documents and requested for fresh issuance of a Letter of Credit when queries were raised
- Shipment involves free trade zones

Measure to tackle TBML:

- As a party to trade, it is necessary to check the documents the parties submit. In case any of the paper is missing or incomplete, a genuine customer will not have qualms about denying it
- Enhanced due diligence must be carried out
- Conduct surprise visits to the companies involved in trade
- Check the negative list & sanction list
- A cautious approach is required when tax heaven countries are involved
- Monitoring & verification of transaction alerts
- Proper validation of Harmonized Commodity Code

How to curb TBML?

Early detection of trade anomalies is an essential first step for curbing TBML. The role of customs authorities is prima facie vital because they play a significant role in International Trade. Close collaboration between the customs department and Financial Intelligence units is critical to detecting TBML.

Continuous and timely sharing of cross-border information is critical for curbing TBML.

There is; however, no one size fits all solution for curbing TBML. Some of the best practices can be adopted by countries around the world.

Create awareness: In many countries, the understanding of TBML is minimal. Government must take actionable steps to create awareness about TBML.

Beneficial owner: Shell companies are widely used across countries to launder money. Establishing a "Central Public Registry" of Beneficial Owners is essential to capture accurate owner information.

Use of technology: With the help of technology, compare one country's exports with the imports of its trading partner to detect discrepancies.

Trade Transparency Hubs: Each country must develop trade transparency hubs to identify anomalies in the trade practices from the trade data; such anomalies could be an indicator of Trade-Based Money Laundering.

Cross Border fund transfer: Monitoring of cross-border wire transfers should be made more stringent, and the threshold amount for reporting should be reduced to less amount from the existing amount of USD 10,000/-
Special Task Force - Australian Law enforcement officials developed an effective enforcement tool to

reduce money laundering activities. The task force's countermeasures disrupted criminal entities and uncovered dozens of money laundering schemes. The co-ordinated crackdown will help to curb the menace of money laundering.

TBML impacts various issues such as tax evasion, customs fraud, and terror financing It is a channel of criminal activity, and, given the growth in world trade, it represents an increasingly important money laundering and terrorist financing vulnerability.

Trade-based money laundering practices vary in complexity. The most basic schemes are fraudulent trade practices (e.g. under- or over-invoicing of receipts). However, more complicated schemes integrate these fraudulent practices into a web of complex transactions, which also involve the movement of value through the financial system (e.g. cheques or wire transfers) and/or the physical movement of banknotes (e.g. cash couriers). These complex transactions further obscures the money trail and complicates detection.

Various government and non-government agencies at global, regional, and national levels have developed specific regulatory guidelines and mandates for the financial services industry to control money laundering. The emergence of technology and new payment methods in the financial sector has further opened new gateways to money launderers and increased regulators' focus on the industry. Financial institutions are challenged to deal with rising compliance requirements and protect themselves from the legal, regulatory, and reputational risks associated with laundering activities. The rising volumes of customer transactions and the increased automated interaction with customers have made compliance more complicated for these firm.

Journey of Primary Sector Lending in Indian PSBs

Dr. Jyotsna Haran
Presently visiting Professor in Mumbai

Abstract:

It is an effort to go through the journey of primary sector lending of public sector banks in India. Loan function is an important issue in view of the development goal. Its journey has to be dynamic, though it is, but can be more customized and may be more flexible so as to appropriately address the development motives.
The loan function of public sector banks in India is a critical phase of their role in the economy. These banks play a crucial role in channeling funds from savers to borrowers, supporting economic growth and development.

Areas of Priority sector lending

In India, the priority sector lending norms are planned by the Reserve Bank of India (RBI) and are applicable to all commercial banks, including public sector banks.

- Agriculture: This category covers loans provided to farmers for agriculture and allied activities.
- Micro, Small, and Medium Enterprises (MSMEs): Loans drawn-out to MSMEs for manufacturing, services, or trade deeds fall under this classification.
- Education: Loans providing for educational resolutions, together with student loans for higher education, are well-thought-out as part of the priority sector.
- Housing: Loans for reasonable housing, predominantly for economically fragile sections and low-income groups, originate under this category.
- Export Credit: A percentage of the bank's loans inevitably to be directed towards export credit to support the growth of the economy's exports.
- Weaker Sections: Loans provided to sidelined and helpless sections of society, such as Scheduled Castes (SCs) and Scheduled Tribes (STs).
- Renewable Energy: Loans for renewable vigor projects are considered as priority sector advances.

The percentage of priority sector lending targets can vary and is periodically reviewed by the RBI. As of September 2021, public sector banks in India were required to confirm that 40% of their total advances were focused towards the priority sector.

It's worth noting, priority lending serves important developmental goals, banks must also manage the associated credit risks and warrant that the loans disbursed under priority sectors are suitably utilized and paid back to maintain the overall health of their loan portfolios.

Challenges Observed

- Non-Performing Assets Concern: The unique challenge confronted by public sector banks in India over the years has been the intensifying levels of Non-Performing Assets. It may be due to weak credit appraisal, corporate governance issues, and economic slowdowns along with other issues.
- Digitalization and Technology Acceptance: Technology acceptance and adaptation had been a great success. PSUs have been progressively adopting digital technologies to improve their loan treating and customer facilities. Digitalization has made loan request and sanction procedures more effective, enabling faster payout of funds.
- Priority Sector Lending: These banks are directed to meet specific targets for lending to priority sectors like agriculture, small and medium enterprises (SMEs), and feebler segments of society. Even though this safeguards credit flow to critical sectors, it can also pose challenges in relations of risk managing and lucrativeness.
- Capital Adequacy and Basel Norms: PSUs are required to fulfill Basel III norms, which necessitate

them to preserve a minimum level of capital adequacy to engross potential losses. This might affect their advancing capacity and profitability.

- Competition from Private Sector Banks: Public sector banks facade stiff antagonism from private sector banks, which are often more alert and competent in their lending executes.
- Economic and Sectoral Challenges: Economic fluxes and ups and downs in specific sectors can affect the loan function of public sector banks. During periods of economic go-slow banks might become more cautious in their lending, upsetting credit availability.

Priority sector lending Status

- Sturdy Upturn in Priority Sector Lending: There has been a balanced increase in the priority sector lending by public sector banks in India. The government and the Reserve Bank of India (RBI) have regularly stimulated banks to augment credit flow to priority sectors to support economic growth and social progress.
- Emphasis on Agriculture and MSMEs: Agriculture and Micro, Small, and Medium Enterprises (MSMEs) have been the major receivers of priority lending. These sectors play a vibrant starring role in India's economy and employment creation. Public sector banks have headed a significant percentage of their priority sector loans on the way to these sectors.
- Weightage on Financial Inclusion: Priority sector lending has been contributory in supporting financial inclusion in India. Public sector banks have enlarged their attention on providing credit to underserved and marginalized sections of society, such as farmers, women entrepreneurs, and fragile segments.
- Technology Adoption for Efficient Lending: PSUs have progressively incorporated technology to modernize their lending procedures for priority sectors. Digital platforms have been engaged to grasp remote areas and offer quick and hassle-free credit amenities to appropriate borrowers.
- Provision to Affordable Housing: Public sector banks have vigorously backed in supporting the government's enterprises for reasonable housing. They have drawn-out loans to individuals and developers for owning affordable housing units
- Momentum for Renewable Energy: In line with India's assurance to sustainable development, there has been a growing focus on priority lending for renewable energy projects. Public sector banks have contributed to financing solar, wind, and other renewable energy projects to promote clean and green energy sources.
- Compliance Challenges: Though public sector banks have made efforts to happen the priority sector lending targets, faced challenges in achieving the recommended percentages in few cases. Meeting the lending requirements for certain sectors, like weaker sections and export credit, has posed challenges due to various factors, including credit risks and mortgagor profiles.
- Monitoring and Reporting: The RBI has supported nurture and reporting mechanisms for priority sector lending. Banks are mandatory to submit periodic reports to govern compliance with priority sector lending targets and to ensure transparency and accountability.
- Policy Apprises: The RBI from time to time reviews and updates priority sector lending norms to align with varying economic circumstances and development goals.

Ambiguities in the field

- ✓ Miscategorization of Loans: Public sector banks may on occasion differently classify loans to swell their priority sector lending statistics. This could include recording loans under the priority sector classification even if they do not sincerely qualify, leading to an erroneous depiction of the banks' compliance with regulatory necessities.
- ✓ Deviation of Priority Loans: In some cases, banks may lay out loans to priority sectors but discover that mortgagors sidetrack these funds to non-priority areas This may lead to reduced impact on the targeted sectors.
- ✓ Concentration in some Priority Sectors: There might be an over-concentration of lending within specific sub-segments of these sectors. For instance, banks might primarily lend to large agri-businesses or established MSMEs, overlooking smaller and more vulnerable entities within these sectors.
- ✓ Insufficient Credit Appraisal: Some public sector banks might face challenges in processing credit appraisals for borrowers in priority sectors, leading to higher default risks and potential non-performing assets (NPAs).
- ✓ Weaker Section Lending:. Banks may tussle to identify eligible recipients and provide credit facilities to them.
- ✓ Monitoring and Compliance: Proper monitoring and compliance with priority sector lending requirements can be complex, especially with extensive and diversified loan portfolios. So some banks may find it perplexing to track and report their lending activities perfectly.
- ✓ Limited Availability of Quality Projects: Finding viable and bankable projects in certain priority sectors, especially for areas like renewable energy or export credit, might be a limitation. This drawback can hamper banks from meeting specific lending targets.
- ✓ Risk Management: Maintaining a balance between fulfilling priority sector obligations and managing credit risks in economic turbulences is a challenge for public sector banks.

Structural changes in priority sector

- Enclosure of different Sectors: The RBI has extended the range of the priority sector by including new sectors under its purview, for instance, entrepreneurship and innovation.

- Ups and downs in Agriculture Lending: In 2018, the RBI announced the concept of 'Agro Start-ups' and 'Agro Infrastructure' as part of agriculture lending targets, to support the development of agriculture set–up arrangement.
- Emphasis on Weaker Sections: The RBI has continued to emphasize the lending to weaker sections of society, such as Scheduled Castes (SCs), Scheduled Tribes (STs), and other marginalized communities. The objectives for lending to these sections have been periodically reviewed to safeguard inclusive growth.
- Reviewed Target for Renewable Energy: In 2019, the RBI amplified the target for lending to the renewable energy sector to endorse sustainable development and report climate change disquiets. This intended to incentivize banks to finance additional to renewable energy projects.
- Reviewed Targets for Micro Enterprises: The RBI has been frequently revising the target for lending to micro enterprises within the MSME sector. The changes are projected to encourage banks to emphasis on micro enterprises and upkeep their growth and development.
- Priority Sector Lending Certificates (PSLC): To encourage suppleness and effectiveness in meeting priority sector lending targets, the RBI announced Priority Sector Lending Certificates (PSLCs) in 2016. Banks with surplus lending in certain priority sectors can sell their surplus PSLCs to other banks that need to meet their priority sector targets. This instrument permits banks to optimize their priority sector lending and improve credit flow to underserved sectors.
- Evaluation of PSL Norms: The RBI conducts periodic reviews of priority sector lending norms to align them with surfacing economic conditions and policy objectives. These reviews ensure that the priority sector lending policy remains appropriate and effective in attaining its developmental goals.

Future side of PSL

- Enlargement of Priority Sectors: Policymakers might consider including new sectors related to healthcare, education, or digital infrastructure.
- Emphasis on Sustainable Development: There is need of an increased importance on priority lending to support sustainable development goals, such as renewable energy projects, climate-resilient infrastructure, and environmentally friendly creativities.
- Technology-Driven Inclusion: Yet to come additional changes might encourage the use of technology to augment financial inclusion and reach underserved populations. This could involve stimulating digital banking services, fin- tech partnerships.
- Customization of Targets: As a replacement for of having a identical targets for all banks, future changes might consider customizing priority sector lending targets based on the scope and scale of individual banks, considering their approach and capacity.
- Regional Targeting: Officials might announce procedures to address regional disparities in credit availability. This can be by asking banks to involve in lending more in lesser developed regions or areas with poorer access to credit.
- Monitoring and Reporting: Future changes might focus on refining the monitoring and reporting mechanisms for priority sector lending to ensure transparency, accuracy, and accountability.
- Aligning with ESG Principles: Priority sector lending norms might be aligned with Environmental, Social, and Governance (ESG) ideologies to encourage banks to consider environmental and social issues in their lending decisions.
- Incentives and Penalties: To do compliance with priority sector lending targets, the incentives and penalties for banks based on their performance.
- Review of PSLC Mechanism: The Priority Sector Lending Certificates (PSLC) mechanism might be reviewed and modified to optimize its efficiency and effectiveness in achieving priority sector lending targets.
- Focus on Financial Literacy: Awareness and spread of financial literacy and awareness among priority sector borrowers to improve their creditworthiness and financial management.

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Save Foreign Exchange Reserves
(Cross Border Trade Transactions in INR)

Shri Nagarjun K
Deputy Manager
State Bank of India
Regional Office, Vijayawada

Abstract:

*During the visit by India's Prime Minister Shri Narendra Modi to the UAE, the Two Countries agreed to set up a "**Real-Time Payment Link**" to facilitate easier '**Cross-border Money Transfers**'.*

*Accordingly, India has Signed an Agreement with the United Arab Emirates (UAE) that will allow it to settle "**Trade in Rupees Instead of Dollars**", Boosting India's efforts to cut '**Transaction Costs**' by eliminating Dollar Conversions.*

*It covers all Current Account transactions and **permitted** Capital Account transactions.*

India would use the Mechanism to pay for Oil as well as other Imports from the UAE, its **Fourth Largest** oil supplier in the year to march. At present India, the World's third-biggest oil importer and consumer and whose Central Bank last year announced a framework for settling Global Trade in Rupees, pays for UAE oil in Dollars. Apart from creating an alternate payment mechanism, settlement in Rupees would also cut India's Transaction Costs by **Eliminating Dollar Conversions**. India is keen to push similar Local Currency arrangements with other Countries, as it looks to boost Exports amid slowing Global Trade.

Trade Transactions between Two Countries

- ✓ In the first transaction under the newly implemented Local Currency Settlement (LCS System), a leading UAE Gold Exporter Invoiced the Sale of 25 kg of Gold, Valued at approximately 12.84 Crore Rupees. Gold, Gems, and Jewellery are the **Second** most Traded Commodities between India and the UAE.
- ✓ Bilateral trade between India and UAE was $84.5 Billion in 2022/23.
- ✓ The Oil-rich Gulf States Import as much as 80-90% of their Food and want to secure their Supply Chains.

Unified Payments Interface (UPI) & UAE's Instant Payment Platform (IPP):

The Central Banks of both Countries have Signed to Co-operate on linking India's Unified Payments Interface (UPI) with the UAE's Instant Payment Platform (IPP) and **RuPay Switch and UAESWITCH**.

- ✓ The UPI-IPP link will enable users in both countries to make Fast, Safe and Cost-effective Cross-border Transfers.
- ✓ The Linking of Card Switches will facilitate the Mutual acceptance of Domestic Cards and the Processing of Card Transactions.
- ✓ The MoUs were Signed by the respective Governors of the RBI and the Central Bank of UAE.
- ✓ They also Explore the Linking of India's Structured Financial Messaging System (SFMS) with the Payments Messaging System of the UAE.

Significance of Rupee Based Cross Border Transaction:

- ✓ India is looking to work out a way to **Mitigate Exchange Rate Risks** in the Rupee-based Trade to limit losses for Indian Exporters.
- ✓ The Rupee-based Transaction is part of a **Concerted Policy** effort by India to 'Internationalize the Rupee' to bring down the Dollar Demand.
- ✓ Apart from Russia, Countries in Africa, the Gulf Region, Sri Lanka and Bangladesh had also expressed interest in Trading in Rupee Terms.

'Cross Border Trade' Transactions in INR under FEMA, 1999-RBI Guidelines:

1. **Invoicing**: All Exports and Imports under this arrangement may be Denominated and Invoiced in Rupee (INR).

2. **Exchange Rate**: Exchange Rate between the Currencies of the Two Trading Partner Countries may be market determined.

3. **Settlement**: The Settlement of Trade Transactions under this arrangement shall take place in INR in accordance with the procedure laid down in RBI/2022-2023/90-A.P. (DIR Series) Circular No.10 dtd.: 11th July, 2023 (Para-3).

   Settlement Procedure: In Terms of Regulation 7(1) of Foreign Exchange Management (Deposit) Regulations, 2016, Authorised Dealer (AD) Banks in India have been permitted to open '**Rupee Vostro Accounts**'. Accordingly, for settlement of trade transactions with any country, AD Bank in India may Open '**Special Rupee Vostro Accounts**' of Correspondent Bank/s of the Partner Trading Country.

   In order to allow Settlement of International Trade Transactions through this arrangement:

   - Indian Importers undertaking Imports through this Mechanism shall make **Payment** in INR which shall be Credited into the "**Special Vostro Account**" of the Correspondent Bank of the Partner Country, against the Invoices for the Supply of Goods or Services from the Overseas Seller /Supplier.
   - Indian Exporters, undertaking Exports of Goods and Services through this mechanism, shall be **paid** the Export Proceeds in INR **from** the Balances in the Designated '**Special Vostro Account**' of the Correspondent Bank of the Partner Country.

4. **Documentation**: The Export / Import undertaken and settled in this manner shall be subject to usual Documentation and Reporting requirements. Letter of Credit (LC) and other Trade related Documentation may be decided mutually between Banks of the partner trading Countries under the overall framework of Uniform Customs and Practice for Documentary Credits (UCPDC) and incoterms. Exchange of messages in safe, secure, and efficient way may be agreed mutually between the banks of partner countries.

5. **Advance against Exports**: Indian Exporters may receive **Advance Payment** against Exports from Overseas Importers in Indian Rupees through Rupee

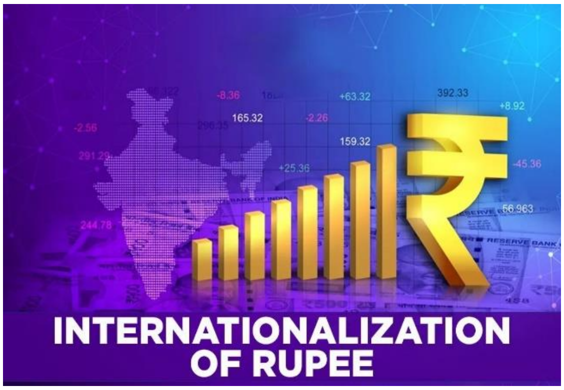
Payment Mechanism. Before allowing any such receipt of advance payment against exports, Indian Banks shall ensure that available funds in these accounts are first used towards payment obligations arising out of already executed Export Orders / Export Payments in the pipeline. The said permission would be in accordance with the conditions mentioned in Para-C.2 on Receipt of Advance against Exports under Master Direction on Export of Goods and Services 2016 (As amended from Time to Time).

In order to ensure that the advance is released only as per the instructions of the Overseas Importer, the Indian Bank maintaining the '**Special Vostro Account**' of its Correspondent Bank shall, apart from usual Due Diligence measures, verify the claim of the Exporter with the advice received from the Correspondent Bank before releasing the advance.

6. **Setting-off of Export Receivables**: '**Set-off**' of Export Receivables against Import Payables in respect of the same Overseas Buyer and Supplier with facility to Make / Receive Payment of the Balance of Export Receivables / Import Payables, if any, through the Rupee Payment Mechanism **may be allowed**, subject to the conditions mentioned in Para-C.26 on Set-off of Export Receivables against Import Payables under Master Direction on Export of Goods and Services 2016 (As amended from Time to Time).

7. **Bank Guarantee**: Issue of Bank Guarantee for 'Trade Transactions', undertaken through this arrangement, is permitted subject to adherence to provisions of FEMA Notification No. 8 (As amended from Time to Time) and the provisions of Master Direction on Guarantees & Co-acceptances.

8. **Use of Surplus Balance**: The 'Rupee Surplus Balance' held may be used for permissible Capital and Current account Transactions in accordance with mutual agreement. The Balance in '**Special Vostro Accounts**' can be used for:



≈ Payments for Projects and Investments.

≈ Export / Import Advance Flow Management.

≈ Investment in Government Treasury Bills, Government Securities, etc. in Terms of Extant Guidelines and Prescribed Limits, subject to FEMA and similar Statutory Provision.

9. **Reporting Requirements**: Reporting of Cross-Border Transactions need to be done in terms of the Extant Guidelines under FEMA 1999.

10. **Approval Process**: The Bank of a Partner Country may approach an Authorised Dealer (AD) Bank in India for opening of '**Special INR VOSTRO Account**'. The AD Bank will seek approval from the Reserve Bank with details of the arrangement. AD Bank maintaining the 'Special Vostro Account' shall ensure that the Correspondent Bank is not from a Country or Jurisdiction in the updated FATF Public Statement on High Risk & Non-Co-operative Jurisdictions on which FATF has called for Counter Measures.

    The above instructions shall come into force with **immediate effect**.

Conclusion:

The Tarapore Committee's Recommendations (in 1997 and 2006), including reducing **Fiscal Deficits**, **Inflation Rates**, and **Banking Non-performing Assets**, should be pursued as a Primary Step towards '**Internationalisation of Rupee**'. Also, Advocating for the Rupee to become an 'Official Currency' in International Organizations would raise its Profile and Acceptance.

'One Million' Central Bank Digital Currency Transactions (CBDC)

(Per Day)

Dr. P. Sai Sudha
Freelancer
Hyderabad

Abstract:

*India has become a '**Model for Digital Payments**' adoption for Countries across the Globe. Digital Payments are one of the most important Pillars of a '**Financially Inclusive Country**' and helps in **bringing people together** under an '**Organised Financial System**'.*

*Digital Payments in India continues to grow at a massive Rate with a **Y-o-Y** Transactional Volume Growth of 56% in FY 2022–2023 and is Expected to Grow **Four Times** by FY 2026–2027.*

*This Growth can be attributed to the **Policies Implemented by the Government of India** and the **Reserve Bank of India (RBI)** for promoting 'Digital Payments', the emergence of '**FinTech**' with New Technologies to ease user experience and PSPs building infrastructure to support smooth transaction flows. Over the next five years, UPI is expected to constitute almost **90% of Total Transactional Volume** in Retail Digital Payments by expanding its adoption to Rural Areas and Tier-3 and 4 Cities.*

Credit Card, National Electronic Toll Collection (NETC) and Bharat Bill Payment System (BBPS) are some of the other Instruments which are also expected to grow at a Healthy Rate.

RBI Sets Targets for Bankers on Central Bank Digital Currency (CBDC):

The Reserve Bank of India (RBI) has set **Goals for Banks** to promote initiatives, like the Central Bank Digital Currency. RBI is closely watching Banks to see if they meet these Targets.

For Example, RBI wants **One Million Digital Currency Transactions** daily by December, even though some Bankers think it might not be very useful because the **Unified Payments Interface (UPI)** is already popular.

The Reserve Bank of India (RBI) informed Bankers to take part in Pilot Programmes using the Central Bank Digital Currency (CBDC) as it tries to increase transactions.

Nearly **TWO DOZEN** Central Banks across 'Emerging and Advanced Economies' are expected to have **Digital Currencies** in Circulation by the end of the decade, the Bank for International Settlements (BIS) found in a Survey.

Last Year, the RBI began trials using CBDCs, Termed **e-₹**, in both the Wholesale and Retail Markets.

Currently, Large State-owned and Private Lenders, including:

- ✓ State Bank of India (SBI.NS).
- ✓ Bank of Baroda (BOB.NS).
- ✓ ICICI Bank (ICBK.NS).
- ✓ HDFC Bank (HDBK.NS)
- ✓ Kotak Mahindra Bank (KTKM.NS) and
- ✓ Yes Bank (YESB.NS).

✓ Are among those participating in the Pilot Project of Central Bank Digital Currency.

"RBI has instructed Smaller Banks to either Tie-up with **Fintech Players** or Develop their Systems to **Start CBDC Pilots** this Year".

There were **1.3 Million** Customers and **0.3 Million** Merchants, who used CBDC as of June 2023.

RBI to Introduce UPI QR Codes for CBDC Transactions:

The **Reserve Bank of India (RBI)** is set to implement **Interoperability** between its Central Bank Digital Currency (CBDC) and the Unified Payments Interface (UPI). This move will allow Customers to use **UPI QR Codes** for 'Transactions using Digital Currency'.

Interoperability - UPI QR Codes for CBDC Transactions:

Customers will be able to utilize a **Single QR Code** for both **UPI and CBDC Transactions**, ensuring convenience and ease of use. The Interoperability Program has already been adopted by **13 Banks**, and the RBI intends to encourage more Banks to participate, targeting a range of 20-25 Banks for the program. By enabling Interoperability, CBDC users will be able to make transactions even if the Merchant does not have a CBDC Account. In such cases, the payment will be directed to the **Merchant's UPI Account instead**.

Ambitious Transaction Goals:

Currently, Banks Process around **5,000-10,000 Transactions Per Day** using Central Bank Digital Currency (CBDC). The RBI's objective is to Scale this up significantly, **Aiming for 1 Million CBDC Transactions** per day by the end of the calendar year. With over 30 Crore Transactions taking place daily through UPI, achieving this Target is considered feasible and will help promote the **Widespread adoption of Central Bank Digital Currency**.

State Bank of India (SBI) Chairman Shri Dinesh Khara, in his address, said the Scope of **e-Rupee** could be expanded in the Wholesale Sector by promoting the Settlement of Primary Auctions of Government Securities. "We may include buy-side entities such as Pension Funds, Trusts, NPS, EPFO, Insurance Companies, FII Participants participating in the Debt Segment, and Mutual Funds that could also be roped into the Ecosystem to use **e-Rupee**,"

Challenges:

a) **Anonymity and Offline Transactions:** To fulfill the purpose of Central Bank Digital Currency (CBDC), the Reserve Bank of India (RBI) is actively addressing 'Two' Major challenges:
   - ✓ Anonymity and
   - ✓ Offline Transactions.

Ensuring Anonymity while maintaining Security and Compliance is Crucial. Additionally, enabling **Offline Transactions** will allow users to transact seamlessly, even in areas with limited Internet Connectivity.

The RBI's Decision to Implement **UPI QR Codes** for Central Bank Digital Currency (CBDC) Transactions marks a **Significant Step** toward enhancing the Accessibility and Usability of **Digital Currency in India**.

b) **Stable Coins and Cryptocurrencies:** India's concerns about Stable Coins, highlighting that they pose an "Existential Threat" to Countries' Policy Sovereignty. The importance of a '**Global Financial System**' built on Central Bank Digital Currencies issued by Individual Countries for Settling Global Payments, rather than relying on Stable Coins. **Bankers and Fintech Firms** have to protect their 'Customers' from misleading Advertisements and ensure the Adoption of Secure and Regulated Digital Currencies for smooth take-off.

Cost-Effectiveness and Cross-Border Payments:

CBDC transactions are expected to be **Cost-effective**, particularly for Cross-border Payments. Currently, the Cost of Cross-border Transactions **Exceeds 6 percent**, creating Financial burdens.

By leveraging Central Bank Digital Currency (CBDC), these Costs can be significantly reduced. The RBI expects CBDC to facilitate transactions among **Various Banks**, reducing the reliance on a Few Institutions and promoting fair practices

RBI Aims to achieve **1 million CBDC Transactions per day by the End of the Year**, significantly increasing the Current Transaction Volume.

CBDC Pilot Programs and User Adoption:

The Pilot Programs for Retail and Wholesale Transactions using CBDC have seen considerable success.

As of **June 30**, the Retail Pilot has surpassed One Million Users and 2,62,000 Merchants. The Reserve Bank of India has actively encouraged participation from Banks and **Fintech Firms** to further increase transactions.

The introduction of **UPI QR Codes** for Central Bank Digital Currency (CBDC) transactions will contribute to this growth.

Conclusion:

We can go to an ATM and Easily Transform the Electronic Record of our Currency holdings into Physical Rupees. Digital Currency, however, **never leaves** a Computer Network, and it is Exchanged exclusively **via** Digital Means.

There are Three main Varieties of Digital Currency - Cryptocurrency, Stablecoins and Central Bank Digital Currency, known as **CBDCs**.

Blockchain Technology, which provides the Foundation for Cryptocurrency, is the most common form of Distributed Ledger used by Digital Currencies. According to **CoinMarketCap**, there are more than 9,000 Cryptocurrencies available across the World.

The possibility of using Crypto Currencies towards Cross-border Transactions has been presented by some Experts as an Alternative Channel as they Increase Transparency and Improve Security. Stablecoins is a Crypto Currency whose Value is linked to an asset such as a US Dollar. "We have to be Careful here and need to Push for CBDCs. Stablecoins are linked to Currencies but are Good only for the Country to which the Currency belongs…not for India." **Shri Rabi Sankar, Deputy Governor, Reserve Bank of India said**.

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1. *Reserve Bank of India Press Releases.*
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Financing MSME - Expanded scope of TReDs

Shri C M Khurana
Former Chief General Manager, Oriental Bank of Commerce
Former Chief General Manager - (Credit) IIFCL

Background

As we are well aware, the micro small and medium enterprises (MSME) sector is playing a very significant role in the holistic development of Indian Economy. The sector comprises around 70 million enterprises which contribute nearly 30 percent to India's GDP. About 45 %of total manufacturing and 40%of total exports are generated by this sector, besides providing employment to over 113 million people. Providing timely and adequate Financing for MSME sector has been a challenging task over the years and concerted efforts by the various stake holders including, the central and state governments, RBI and commercial banks /NBFCs are always required. One such institutional mechanism for facilitating the Financing of trade receivables of MSMEs due from corporate and other buyers, including Government Departments and public sector undertakings (PSUs) is the electronic platform called TReDS.i. e Trade Receivables Discounting System. Originally started in 2014, the mechanism has positively evolved over time and RBI has recently announced further expansion of the scope of the scheme vide notification dated. 7th June 2023. (Revision and expanding the scope of TReDS guidelines earlier updated as on 2nd July 2018 by RBI). Here we discuss the broad features of the scheme, the latest improvements and the potential it has for the timely support to MSMEs in the realm of working capital finance.

Broad Features of the scheme

The MSMEs in India provide a wide range of products and services to not only the large corporates, but also other entities as part of the vast supply chain to convert the same into final end products. As a part of the trade cycle of each industry/sub sector, the MSMEs are generally required to provide their goods on credit basis as against immediate cash payment. This leads the creation of trade receivables with usance/credit period ranging from 45 days to 180 days depending upon the trade practice. Conversion of these future cash inflows into immediate liquidity/cash, through financing by Banks /NBFCs is the essence of this Scheme. This facilitates the quicker business cycle which in turn leads to the possibilities of a higher output of the MSME units.

There are primarily three participants in TReDS viz MSMEs as sellers, corporates and other entities as buyers and Banks, NBFCs - factors and other financial institutions as permitted by RBI as financiers.

Broadly in the operational working of the transactions through TReDS platform, the following steps are covered: -

a) creation of 'factoring unit' (FU) - containing details of invoice/bills of exchange (evidencing sale of goods/ services by MSME sellers to buyers) on TReDs platform by the MSME seller (in case of factoring) or the buyer (in case of reverse factoring)
b) Acceptance of Factoring Unit (bill/invoice) by the counter party buyer or seller as the case may be.
c) Bidding by Financers
d) Selection of best bid by the seller or the buyer as the case may be
e) payment made by the financer (of the selected bid), to MSME seller at the agreed rate of financing/discounting
f) payment by the buyer to financer on due date.

Each FU thus represents a confirmed obligation of the corporates or other buyers including Government departments and PSUs.The FU can be created either by the MSME seller or the proposed buyer. If MSME seller creates it, the process is called factoring. If the same is created by the by the corporates or other buyers, it is called as reverse factoring. The TReds platform can deal with both receivables factoring as well as reverse factoring.

Current Status

At present, three approved entities operate TReDS platforms in the country, and as per RBI communication, one more entity has also been given 'in principle' authorisation to operate such platform. The operations of TReDs are governed by the Payment and Settlement Systems (PSS)Act 2007.The KYC process also needs to be completed in terms of extant Master Directions of RBI. There has been a continuous increase in the utilisation of this platform, considering the inherent advantage to both the sellers (MSMEs) and buyers. The sellers get the benefits of competitive price discovery, transaction is without recourse to seller, with right to choose the best bid, without dependence on a single financer and without the need for following up by the seller with the buyer for the final payment. The buyers get the benefits by way of negotiation of better terms with MSME vendors, competitive price discovery, efficient cash flow management, while complying with MSME Development Act 2006.

Expanded scope of TReDs

Considering the high importance of the Receivables funding for MSMEs, the RBI has come out with significant changes in terms of notification dated 7th June 2023 expanding the scope of the scheme to facilitate better terms and more effective and efficient mechanism of TReDs. The improved points of the scheme inter alia include the following:

1) Facilitate insurance for transactions

As discussed above, the transactions under TReDS are without any recourse to the MSME suppliers and are essentially dependent on the timely payment by the buyer to the financiers. Financiers therefore place their bids on the TReDs platforms keeping in view the credit rating of buyers. Low rated buyers generally are left out and not bid by the financiers. To overcome this issue, RBI has now permitted for TReDS transactions, insurance facility, which would help financiers to hedge default risks. The following conditions have been stipulated by RBI for the same in their notification dated 7th June 2023: -

a) Apart from the MSME sellers, buyers and financiers, insurance companies are permitted to participate as 'fourth participant' in TReDS.
b) In their business/operational rules, the TReDs platform operators may specify the stage at which insurance facility can be availed.
c) Premium for insurance shall not be levied on the MSME seller.
d) Collection of premium and related activities could be enabled through National Automated Clearing House (NACH) system used for settlement of TReDs transactions.
e) Based on consent received from Financers and insurance companies, TreDS platform could facilitate automated processing of insurance claims and specify timelines of their settlement through the NACH system.
f) As of now the credit insurance shall not be treated as a Credit Risk Mitigant (CRM) to avail any prudential benefits.

As revealed from above, the RBI has specified the broad framework for the functioning of the insurance mechanism. This is probably for the first time such a mechanism has been permitted to partly cover the credit default risk. The TreDs scheme is felt to be an appropriate platform to test this insurance mechanism. All the stakeholders, particularly the insurance companies, the financiers and buyers need to collaborate together to evolve a robust mechanism to create a win win situation for all. Its success and learnings out of the evolving mechanism, can create a broader canvass for future scenario of insurance products being available as a credit risk management tool in due course of time.

2) Expand the pool of financiers

In addition to banks and NBFC-Factors, more entities have now been permitted to participate as financiers in TReDS. As per the revised coverage, all entities / institutions allowed to undertake factoring business applicable under 'The Factoring Regulation Act 2011' shall now be able to participate. This is likely to augment the number of financiers available on TReDs platform thereby increasing competition and the availability of funds at finer rates.

3) Enable secondary market for Factoring Units

To further widen the scope of the scheme and bring in, additional rotation of funds, the creation of a secondary market has now been permitted, for transfer of FUs within the same TReDs platform. This shall however be subject to extant RBI guidelines on 'Transfer of Loan Exposures' directions of 2021.

4) Settlement of FUs not discounted/financed

In order to further streamline the system and facilitate better reconciliation, TReDS platform operators shall now be permitted to undertake settlement of all FUs including those FUS which were uploaded on TReDs platform but not discounted by any Financers. Such un - financed FUs loaded on platform were earlier required to be settled outside the system. This shall however be subject to the provisions of MSME Development Act 2006.

5) Display of Bids

To make the process of bidding more transparent, the platforms are now permitted to display details of bids placed for an FU to other bidder, name of the bidder shall however not be revealed. This will make the mechanism more competitive, facilitating availability of finer rates to the MSME sellers.

Conclusion

The availability of timely and adequate working capital finance for MSMEs has been a crucial and challenging task before the Banks and the Government authorities. The dispensation of receivable financing to MSMEs through the mechanism of TReDS has emerged as one of the important means of providing funding in s seamless manner through the electronic platform. In order to make the mechanism still more effective and efficient tool of financing, the scheme has been modified and its scope significantly expanded. The availability of insurance mechanism as a tool to hedge the default risk is expected to prove as a game changer to improve the reach of this scheme. The other relaxations and changes in scheme shall also act as facilitators to create a win win situation for all the stakeholders to make the scheme a bigger success.

Energy-as-a-Service (EaaS) Model

(To Control 'Electricity Costs' of Banks)

Shri Ravi Teja. Ch
Assistant Executive Engineer
NTPC School of Business (Executive PGDM), Noida

History:

News - 23rd April, 2010: State Bank of India (SBI) has become the First Bank in the Country to Venture into "Generation of Green Power" by Installing Windmills for **Captive Use**. As part of its 'Green Banking' Initiative, SBI has Installed 10 Windmills with an Aggregate Capacity of **15 MW** in the States of Tamil Nadu, Maharashtra and Gujarat.

"SBI have Planned to Install an Additional **20 MW** Capacity of Windmills in Gujarat Soon and Touch **100 MW** Power Generation Through Windmills within Five Years," while inaugurating the Windmills at Panapatti Site in Vadaputtur Village in Pollachi Taluk in Coimbatore by Chairman, State Bank of India. SBI said Windmills are set up with a definite objective of reducing the "**Dependence on the Polluting Thermal Power**" and not on "Purely Economic or Business Considerations".

"Bank Consumes **100 MW** of Power Per Year. So, SBI try to be Energy Neutral and Reduce our Carbon Footprints".

Total Cost of Installation of a Windmill of **1.5 MW** is around **₹ 10 Crores**. "The Operation Cost is **Close to Zero**" and SBI Expect to Recover the "Initial Investment" in Four Years".

-News - SBI Chairman Shri OP Bhatt in the Year 2010.

Energy is the Lifeline for all activities. The major energy intensive sectors are Power Generation, Industry, Transportation and buildings (Residential and Commercial). The Hon'ble Prime Minister of India had announced ambitious climate change targets for India during **Cop26** at Glasgow. India Aims to achieve **Net Zero GHG Emissions** by 2070. Our updated Nationally Determined Contributions (NDC) Communicated to UNFCCC are:

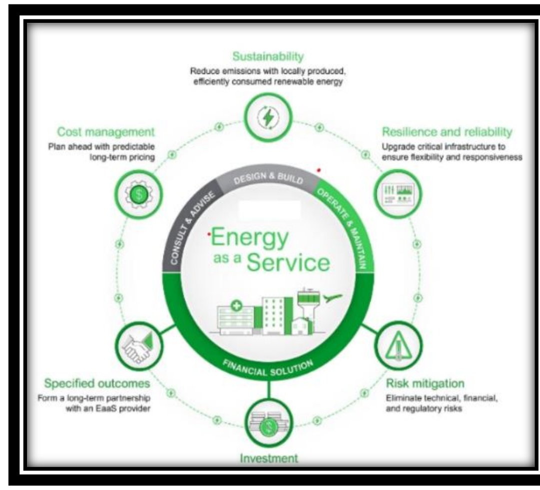
- ✓ **Reduce Emissions Intensity of its GDP by 45 percent by 2030, from 2005 level.**
- ✓ **Achieve 50 percent Cumulative Electric Power Installed Capacity from Non-fossil fuel-based Energy Resources by 2030.**

Also, under Jawaharlal Nehru National Solar Mission (JNNSM), India aims to install Solar PV Capacity of 100 GW (60 GW-Ground Mounted,40 GW-Roof Top) by 2022.
As per Central Electricity Authority (CEA) Report, Installed Capacity of India as on 31-05-2023 is 4,17,668 MW, out of which Fossil Fuel Share is 2,37,269 MW (**56.8%**) and Non-Fossil Fuel Share is 1,79,322 MW (**43%**).

In order to achieve India's Climate Goals and also to reduce emissions voluntarily, a massive transition should happen from Fossil Fuel towards Non-Fossil fuel-based Energy.

This Transition Poses some real challenges like Huge Upfront Capital Investments, lack of Technical and Managerial Bandwidth, Operation And Maintenance (O&M) of Renewable Energy (RE) based Assets, Regulatory Challenges etc.

Energy-as-a-Service (EaaS) / Renewable Energy Service Company (RESCO):



EaaS / RESCO Model is a One Stop Solution for entities aiming to reduce their Scope-2 Emissions by Consuming Green Power, without any challenges. This is a typical subscription Model in which the consumer utilizes Green Power without purchasing and managing the RE generating assets outrightly.

EaaS can be offered through both 'On-site' and 'Off-site' Solutions. In On-site, the RESCO installs the Solar Panels / Wind Turbines on the Premises of Consumer. Consumer may avail 'Net Metering' Facility also in order to Sell the Excess Power Generated from the RE Assets to the power Distribution Utility.

It is also referred as Opex Model / BOOT(Build-Own-Operate-Transfer) Model. The Service provider will Own, Operate and Maintain the Assets for the Entire Agreement period. During this period, the RESCO and Consumer Enters into a Power Purchase Agreement (PPA) which specifies the Quantum of Energy, Tariff and other related terms. At the End of Agreement period, the Service Provider Transfers the Ownership of Assets to the Consumer.

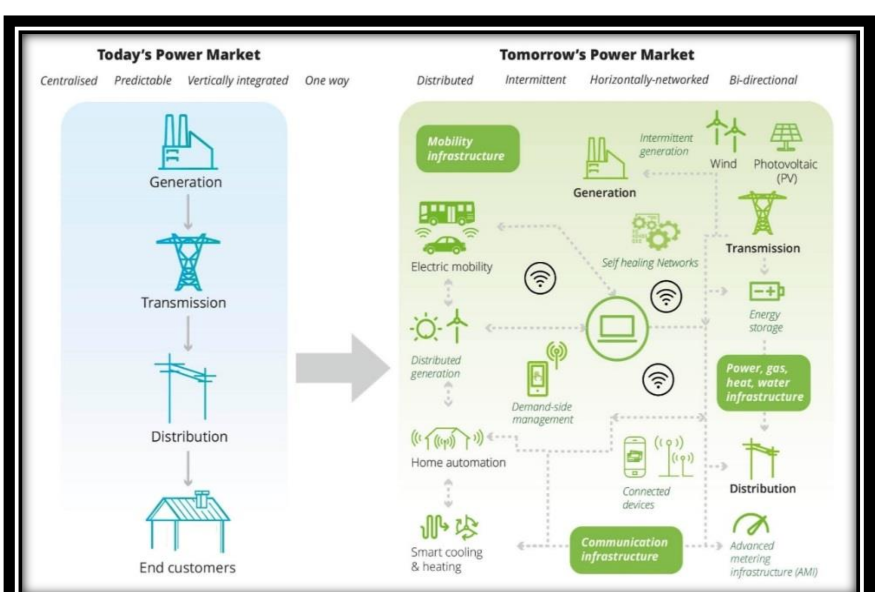
Various Analogies of EaaS:

- ❖ EaaS can be compared with availing catering services for meals, instead of preparing them yourself (Buying Vegetables, Kitchen Equipment, Managing the Manpower etc), where you pay for the number of Servings Consumed. Similarly, Consumers pay for the number of Units (kwh) Consumed at an Agreed Price.
- ❖ Also, EaaS is Similar to SaaS (Software as a Service) in **Cloud Computing** wherein the Users were provided with readymade Software without the need to Own, Maintain and Upgrade required Hardware and Software Assets.

By Transferring the Risks and Challenges to the Service Provider, the user can focus and utilize their resources on core business activities.

This Model Provides a Win-Win Scenario for Both Producer and Consumer:

- ➢ Producer is Assured of Steady Revenue.
- ➢ Consumer is Benefited through Reduced Energy Costs, Improved Accessibility of Green Energy, reduced Emissions and Avoided Risks / Challenges.



Advantages with EaaS:

i. **Reduced Upfront Costs**: One of the main advantages of **Energy as a Service** Model is that, it helps Customers avoid the High **upfront costs** associated with purchasing and installing Energy Systems. Instead, Customers pay a regular fee for the energy service, which can make it more affordable and accessible.

ii. **Reduced Maintenance and Operational Costs:** EaaS Providers typically handle the Maintenance and Operation of Energy Systems, which allows Consumers to focus on their Core Business activities and reduce the burden on end users.

iii. **Improved Energy Efficiency:** EaaS providers often specialize in energy efficiency solutions, which help customers reduce their energy Consumption and Costs. This can be particularly beneficial for Commercial and Industrial Customers that have high energy demand. This not only lowers emissions but also unlocks system-wide benefits by reducing energy demand and easing grid congestion.

iv. **Flexible Tariff Setting**- EaaS providers offers a Variety of Customized tariff mechanisms to suit the Financial Obligations of Consumers. Typical tariff options are:

- ≈ Grid linked i.e., at a Fixed % of Grid Tariff - Tariff Varies along with Grid Tariff.
- ≈ Fixed Tariff for the entire PPA Duration.
- ≈ Tariff for a Specific Duration (e.g., Entire Billing in Initial 10 Years) etc.

v. **Access to New Technology**: EaaS providers are often at the forefront of Energy Innovation, and can provide Customers with access to the Latest Energy Solutions and Technologies. Lower upfront Costs for New Solutions makes them more Agile and Adaptable, allowing them to more easily unlock new revenue streams, increase their competitive advantage and remain future-proof. It also helps their Customers Reduce Costs and Carbon Emissions.

Risks related to EaaS:

i. **Credit Risk:** EaaS providers are vulnerable to Credit Risk of Consumers. It attracts legal disputes and delays the revenue streams. Which may impact the Cash Flows of Company. Hence, EaaS providers should be dispassionate in choosing the Clients.

ii. **Regulatory Risk:** Certain Regulatory Provisions may Hamper the Growth of EaaS Business Model in certain States.

iii. **Supply Chain Risk:** Manufacturing of Solar Panels and Wind Mills require Rare Earth Metals which are mostly imported by India. Geopolitical and Climate Risks may Hamper the Supply of Raw Material.

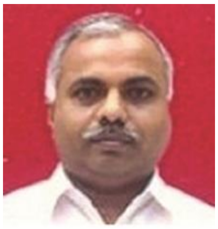
iv. **Paradigm Shift Towards Short Term PPAs:** These Days, the Managements are Preferring Short Term PPAs (10-15 Years) instead of Long Term (25 Years). Since the Life of Solar Panels in 25 Years, a Short Term PPA will not assure the full realization of Capital Incurred.

Conclusion:

With Numerous Benefits, EaaS is a Potential Tool to enable Decarbonization and Electrification of End Use. It also helps in Easing grid Congestion and deterring the need for Capacity Upgradation. With **Energy-as-a-Service,** the Asset-focussed, Fossil Fuel Bases, Centralised Power Generation Approach can be shifted towards a Non-Fossil Fuel based, Decentralized and Opex Approach, which will ultimately address the Three Elements of Energy Trilemma i.e., Energy Accessibility, Energy Security and Energy Sustainability.

INSURANCE

Insuring India by 2047



CMA (Dr.) P. Siva Rama Prasad
Former Vice President SBI General Insurance,
Fellow Member of III (Life & General Insurance), Hyderabad

Abstract:

Insurance Regulatory and Development Authority of India (IRDAI) has committed to enable ***'Insurance for All by 2047'****, where every citizen has an appropriate:*

- *Life.*
- *Health.*
- *Property Insurance Cover.*
- *Every Enterprise is supported by Appropriate Insurance Solutions and*
- *Also, to make Indian Insurance Sector Globally attractive.*

To attain this objective, efforts are being made by IRDAI towards creating a Progressive, Supportive, Facilitative and a Forward-looking Regulatory Architecture to Foster a Conducive and Competitive Environment leading to:

- *Wider Choice to the Policyholders.*
- *Accessibility to purchase the Insurance Policy and*
- *Affordability of Premium (Price of the Insurance Products) to Policyholders.*

*The Reform Agenda taken up by IRDAI derives Inspiration from the Government of India's Vision of "****Financial Inclusion****" and strong emphasis on accelerating reforms.*

The focus of **IRDAI** is to strengthen the **Three Pillars** of the entire Insurance Ecosystem viz.,

≈ Insurance Customers (Policyholders).
≈ Insurance Providers (Insurers) and
≈ Insurance Distributers (Intermediaries).

By:

✓ Making available **Right** Products to Right Customers.
✓ Creating Robust **Grievance Redressal** Mechanism.
✓ Facilitating **Ease of Doing Business** in the Insurance Sector.
✓ Ensuring the Regulatory Architecture is **Aligned with the Market Dynamics**.
✓ Boosting Innovation, Competition and Distribution Efficiencies while Mainstreaming.
✓ Technology and Moving towards **Principle based Regulatory Regime**.

Some of the important proposals approved in the 120th Meeting of the IRDAI are as follows:

1. **Registration** of Indian Insurance Companies.
2. Increase in **Tie-up Limits** for Intermediaries.
3. Regulatory **Sandbox**.
4. Other **Forms of Capital**.
5. Appointed **Actuary**.
6. **Solvency Norms** for General Insurers.
7. Solvency Norms for **Life Insurers**.
8. **Listing** of Insurance Companies.

Health Insurance:

For the Poor, Health Insurance was not considered **an option** in the past until the End of 2007. They had to **Save and Pay a Premium** to afford Health Insurance. Hence, the Government assumed the responsibility of meeting the "**Medical Care Needs**" of the Poor.

To provide 'Health Insurance Coverage' for Low-income People and those Below the Poverty Line, the Government has launched the Flagship 'National Health Protection Scheme'.

National Health Protection Scheme:

It is a Fundamental Right to Access Quality Healthcare, but unfortunately, Not All Citizens can afford it. In 2018, the Indian Government launched the 'National Health Protection Scheme (NHPS)', also known as **Ayushman Bharat**, to provide financial protection to the Poor and Vulnerable. More than 100 million Families or 500 Million Individuals will be provided with affordable Healthcare through this Scheme, which is one of the **Largest Government-funded Healthcare Programs in the World**.

Ayushman Bharat is National Health Protection Scheme, which will cover over 10 Crore Poor and Vulnerable Families (Approximately 50 Crore Beneficiaries) providing coverage upto ₹ 5 lakh per family per year for **Secondary and Tertiary** care Hospitalization.

Ayushman Bharat-National Health Protection Mission will subsume the on-going Centrally Sponsored Schemes - Rashtriya Swasthya Bima Yojana (**RSBY**) and the Senior Citizen Health Insurance Scheme (**SCHIS**).

Salient Features:

≈ Ayushman Bharat - National Health Protection Mission will have a defined benefit cover of ₹5 Lakhs per family per year.

≈ Benefits of the Scheme are portable across the Country and a Beneficiary covered under the Scheme will be allowed to take Cashless Benefits from any Public / Private empanelled Hospitals across the country.

≈ Ayushman Bharat - National Health Protection Mission will be an entitlement-based Scheme with entitlement decided on the basis of deprivation criteria in the Socio-Economic Caste Census (SECC) database.

≈ The Beneficiaries can avail benefits in both Public and Empanelled Private Facilities.

≈ To Control Costs, the payments for treatment will be done on Package Rate (to be defined by the Government in Advance) basis.

≈ One of the Core Principles of Ayushman Bharat - National Health Protection Mission is to Co-operative Federalism and Flexibility to States.

≈ For Giving Policy directions and fostering Co-ordination between Centre and States, it is proposed to set up Ayushman Bharat National Health Protection Mission Council (AB-NHPMC) at apex level Chaired by Union Health and Family Welfare Minister.

≈ States would need to have State Health Agency (SHA) to implement the Scheme.

≈ To ensure that the Funds reach SHA on Time, the Transfer of Funds from Central Government through Ayushman Bharat - National Health Protection Mission to State Health Agencies may be done through an Escrow Account Directly.

≈ In Partnership with NITI Aayog, a Robust, Modular, Scalable and Interoperable IT Platform will be made Operational which will entail a Paperless, Cashless Transaction

Major Impact: Ayushman Bharat - National Health Protection Mission will have Major Impact on reduction of Out of Pocket (OOP) Expenditure on Ground of:

- Increased Benefit Cover to Nearly 40% of the Population. (The Poorest & Vulnerable).
- Covering Almost all Secondary and Many Tertiary Hospitalizations. (Except a Negative List).
- Coverage of ₹ 5 Lakhs for Each Family. (No Restriction of Family Size).

This will lead to increased access to Quality Health and Medication. In addition, the unmet needs of the Population which remained hidden due to Lack of Financial Resources will be catered to.

This will lead to Timely Treatments, Improvements in Health Outcomes, Patient Satisfaction, Improvement in Productivity and Efficiency, Job Creation thus leading to **Improvement in Quality of Life**.

Expenditure Involved: The Expenditure incurred in Premium Payment will be shared between Central and State Governments in **Specified Ratio** as per Ministry of Finance Guidelines in vogue.

The Total Expenditure will depend on Actual Market determined Premium paid in States / UTs where Ayushman Bharat - National Health Protection Mission will be implemented through Insurance Companies. In States / UTs where the Scheme will be implemented in Trust / Society Mode, the Central Share of Funds will be provided based on actual Expenditure or Premium Ceiling (whichever is lower) in the Pre-determined Ratio.

Number of Beneficiaries: Ayushman Bharat - National Health Protection Mission will Target about 10.74 Crore Poor, Deprived Rural Families and Identified Occupational Category of Urban Workers' Families as per the Latest Socio-Economic Caste Census (SECC) data covering both Rural and Urban. The scheme is designed to be Dynamic and Aspirational and it would take into account any future changes in the Exclusion / Inclusion / Deprivation / Occupational Criteria in the SECC Data.

States / Districts Covered: Ayushman Bharat - National Health Protection Mission will be rolled out across all States/UTs in all districts with an objective to cover all the targeted beneficiaries.

Conclusion: In conclusion, Amendments to Regulations follow a Consultative Process. IRDAI's Mission of Protection of Policyholders' Interest and Orderly Growth of the Insurance Sector is Always a Priority. Efforts are made by IRDAI to reach the **Last Mile** by Strengthening the entire Ecosystem. The Regulatory Framework will be a **Continuous Process** to ensure that it is in Sync with the emerging trends and dynamics of market and serves the intended objective of "**Insurance for All".**

The National Health Protection Scheme (NHPS) is an ambitious healthcare initiative launched by the Indian government to provide financial protection to around 10 crore poor and vulnerable families in India. The scheme aims to provide cashless hospitalization for the treatment of serious illnesses and medical procedures, covering both pre-existing and newly-diagnosed medical conditions. By identifying beneficiaries based on the Socio-Economic Caste Census (SECC) database, the scheme aims to ensure that the poor and vulnerable sections of society have access to quality healthcare without the fear of financial burden. The NHPS is a significant step towards achieving universal health coverage and reducing the financial burden of healthcare on the poor in India. However, the successful implementation of the scheme requires effective coordination between the government, insurance providers, and healthcare providers.

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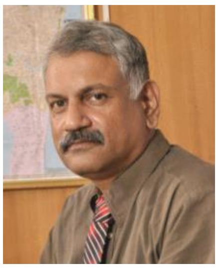
1. *IRDAI Reforms Agenda.*
2. *Government of India Guidelines on "Ayushman Bharat"*

The Insurance Sector is Churning



Shri KB Vijay Srinivas
Freelance Writer, Trainer, Consultant &
Retd. Director, United India Insurance Company Ltd

In recent months, the insurance sector has undergone a whirlwind of activity, signalling a dynamic shift in its landscape. The rate of change has accelerated, marking a turning point in the industry's evolution. While some of these changes have been organic, driven by market forces, a substantial portion has been orchestrated by the regulatory authority, the Insurance Regulatory and Development Authority of India (IRDAI).

Starting with comments made during his speeches at various events the Chairman of IRDAI has made clear his mind of wanting to change the canvas and give a new picture to the sector.He had been an additional secretary in the government overseeing the insurance division. Later he assumed charge as Secretary, Department of Financial Services. He was also on the Board of the biggest Insurer in the country as a Government nominee. So he bears with him an insight into the insurance sector. The post had been vacant for nearly nine months after the retirement of the previous chairman before he took over.

In August,'22, he talked about how Health Insurance pricing is perhaps making it unaffordable to many. High operating & Distribution costs, hospital costs were named as factors leading to high premiums. The diagnosis is correct but he did not elaborate on how this would be tackled. IRDAI may have a direct say as far as operating and distribution costs are concerned. The insurance companies are to operate within the ambit of the regulations formulated by IRDAI.

However they do not have much say over the hospitals, doctors or the pharma sector. While there are some controls over the pharmaceutical industry it has not prevented them from raising prices in many areas. Hospitals represent a powerful lobby where even the government has been struggling to assert itself. There were many reports about the attitude adopted by some of them even during the pandemic.

In October,'22, he spoke about IRDAI working on **Bima Sugam,** which will act as a game changer in the insurance sector by providing a one-stop platform for multiple services including the sale of policy, renewal, and settlement of claims.

This tech-led portal will help in expanding insurance penetration in the country by ensuring a hassle-free experience for customers across the country. He looked upon it as the UPI moment for the insurance sector. However the deadlines for this have been missed though intense work on it seems to be happening and references have been coming up.

This portal is conceived as an online marketplace where insurance policies can be bought and sold. Initially targeted for launch on January 1, 2023, the start date has been deferred to August 1, 2023. Industry councils are collaborating on this project, which holds the potential to deliver significant benefits to policyholders.

One of the most intriguing aspects of the "Bima Sugam" portal is the potential impact on premiums. By eliminating intermediaries from the process, companies might be able to offer lower rates, passing on the cost savings directly to policyholders. This could potentially disrupt the established revenue model of intermediaries and reshape the dynamics of the insurance market.

The broader implications of this portal extend beyond premium reduction. The platform's design also contemplates facilitating claims settlement. While logically conceivable, claims handling is undeniably a complex process that goes beyond the buying and selling of policies. However, if successfully integrated, this aspect could further enhance the portal's value proposition.

According to an ET report in May,'23, the chairman IRDAI talked about a trinity of Bima Sugam, Bima Vistar and Bima Vahak leading the march towards reaching the goal of Insurance for all.Bima Sugam is the online platform described above. Bima Vistar is a bundled product combining Life, Health, property and accidents. It provides defined benefits for each risk category, thereby making claim payments quick. In such cases even surveyors may not be required. Much would depend upon pricing. Obviously if has to be affordable.

The third part of the plan is Bima Vahak. It is to be the vehicle which would deliver the product. It would be centered around women who would be operating at the

Gram Sabha level. They would educate and convince women about the benefits of this insurance product. It is being fashioned after the banking correspondents.

In a *press release* dated November 22, IRDAI outlined an ambitious vision for the industry: to enable insurance for all by the year 2047. What's particularly noteworthy is the use of the term "enable" instead of "ensure." This linguistic choice accurately encapsulates IRDAI's role as a facilitator rather than a coercer in the realm of insurance. The regulatory body acknowledges its responsibility to create an environment conducive to insurance adoption, without imposing an obligation on individuals. While compulsion to purchase insurance currently exists in situations like legal requirements (as with Motor Third-party insurance) or lender mandates, the vast majority of insurance decisions are left to the discretion of individuals.

The press release also shed light on the envisaged product spectrum. It spoke of a future where every citizen possesses appropriate life, health, and property insurance coverage, and where businesses are fortified by tailor-made insurance solutions. However, these broad aspirations are yet to be translated into granular product offerings, as these concepts remain at a nascent stage of development.

A key theme that emerged from the release was the endeavour to bolster the Indian insurance sector's global appeal. Hints were dropped about modifications in registration protocols and capital structures to attract more investment. The chairman of IRDAI underscored the urgent need for a substantial infusion of capital and a greater number of insurance providers to cater to the diverse needs of the market. This point was further punctuated by discussions surrounding the possibility of introducing different types of insurance companies, including Captive Insurance companies and niche players, with potentially **lower capital requirements** compared to the current minimum threshold of ₹100 crores.

An integral element of the insurance ecosystem is the role played by *intermediaries*, and the press release did not overlook this aspect. The spotlight was on **Corporate Agents (CAs) and Insurance Marketing Firms (IMFs).**

CAs, previously permitted to tie up with three General, Health, and Life insurers each, were granted a significant expansion in their tie-up limits. This would particularly benefit Banks and thus the Bancassurance channel. However, as the role of Bancassurance gains prominence, it's imperative for IRDAI to scrutinize its functioning closely. Reports from the Ombudsman indicated Bancassurance, along with Brokers, topped the list of cases registered for mis-selling. Thus, ensuring that undue influence is not exerted on customers to sway them towards particular insurers becomes crucial.

For IMFs, there was a marked increase in the number of insurers they can collaborate with, from two to six, and their geographical scope was expanded to cover the entire state of registration. The IMF channel was initially established with the aim of focused development in specific regions, yet it failed to gather substantial traction thus far. The revised regulations could potentially rejuvenate this channel, offering it a more robust foundation for growth.

Significant events that have transpired recently include **investigations** conducted by the Goods and Services Tax (**GST**) and Income Tax (IT) departments into insurance companies for *alleged tax evasion*. These investigations revolved around exceeding specified marketing expenses and making payments to marketing intermediaries beyond permissible limits. The limits on marketing expenses which have been lifted, placing the onus on insurance companies to devise their own policies for compensating intermediaries should provide a reprieve for companies embroiled in investigations in the future.

However, the removal of marketing expenses limits gives rise to the possibility of differential payments to intermediaries. In response to this concern, IRDAI issued clarifications that the commission structure should be reasonable and should not lead to excessive compensation for intermediaries at the expense of customers or insurers. A call for fairness in determining remuneration for intermediaries and for a transparent competition structure was emphasised. Additionally, for group policies, the notion of imposing a cap on commissions was floated.

*A notable shift in the insurance market landscape is the **ascendance of brokers,** who have now outstripped agents in terms of business* generation. This shift raises pertinent concerns about the future of agents, as financially robust brokers, corporate agents, and banks increasingly dominate the market. This paradigm shift warrants IRDAI's attention, as it directly impacts the livelihoods of lakhs of individuals operating as agents.

An aspect that cannot be overlooked is the ***dwindling market share of Public Sector Undertaking (PSU) insurers, which has now fallen below one third.*** Considering that these insurers once commanded a complete monopoly with a 100% market share two decades ago, this dip is significant, if not entirely unexpected. With the introduction of multiple new players in the market, PSU insurers have faced stiff competition. While market share isn't the sole determinant of an insurer's prowess, it's vital for PSU insurers to take proactive measures to sustain a healthy market share. This is especially pertinent given that three out of the four PSU insurers are grappling with compromised solvency positions.

One cannot discuss the evolution of the insurance industry without delving into the sphere of **product development.** Traditionally, insurers followed a "File and Use" approach, which required new products to be submitted to the regulator for approval before being introduced to the market. However, this norm is undergoing transformation, allowing insurers to tailor products based on client needs and market dynamics. This shift enables insurers to respond more nimbly to emerging trends and evolving consumer demands.

Another pivotal point of consideration stems from the budget, which introduced a cap on the **maximum premium payable** for availing tax benefits under life insurance policies. This measure was taken to curtail instances of individuals exploiting loopholes in the income tax framework. The introduction of this cap at ₹5,00,000 per annum is expected to have ramifications for life insurance companies, potentially altering their premium structures and necessitating strategic adjustments.

Proposed changes on the horizon are awaiting Parliamentary approval, and these hold the potential to reshape the industry's structure fundamentally.

One such proposed change pertains to the issuance of **Composite licenses,** essentially erasing the distinction between Life and Non-Life insurers. This move hints at the possibility of mergers between companies operating in both sectors, potentially giving rise to formidable insurance conglomerates. Considering that most business houses have licenses for life and non-life companies this step would be of great interest to them.

Furthermore, **revisions in investment regulations** are under consideration. Traditionally, insurers have been bound by specific norms governing their investment patterns, with a certain percentage of investments directed toward specified securities. The proposal under discussion is to introduce greater flexibility, allowing the regulatory authority to amend these norms based on market dynamics and evolving investment landscapes.

A particularly intriguing development pertains to the **distribution of other financial products** by insurance companies, akin to what banks already do. The logic driving this consideration stems from the idea that if banks are venturing into the distribution of financial products beyond their traditional offerings, why shouldn't insurance companies? This expansion could potentially result in broader financial offerings for customers while concurrently creating new revenue streams for companies operating within groups with presence in diverse financial sectors.

Several noteworthy initiatives have been set in motion, with the aim of digitising and streamlining various aspects of the insurance landscape. One such initiative is the Health Insurance Claims Exchange, which is part of the Ayushmann Bharat Digital Mission. This endeavour seeks to standardise and digitise the health insurance claims process, with the goal of reducing costs for all stakeholders, enhancing transparency, and improving the overall efficiency of the claims process.

Lead insurer Is yet another concept being brought into insurance operations. This is similar to the lead Bank concept. Under this, in the banking sector, districts were allotted to different banks to take the lead in providing services to the populace. In the nationalised environment with 4 PSU insurers there was the concept of flag companies for the 4 zones that is East, West North, South. Now, it is proposed to allot states to different insurers who would then be expected to collaborate with other insurers in the State to increase penetration. Increasing public awareness about insurance and other financial products is also part of the mandate. For instance, Tata AIG has been name as the lead insurer for the state of Maharashtra, Liberty General for Delhi, Max Life for UP, Chola MS for West Bengal and so on.

New licences for companies are to be put on fast track. The chairman of IRDAI has stated that licences for twenty new companies would be put on the fast track. One company, Acko Life, been issued a license – the first new one since 2011 in the life sector. Another in the general insurance field , Kshema General Insurance, has obtained a license the last approval being in 2017. Will more companies operating result in greater coverage is something that has to waited and seen.

Drawing parallels from ancient Indian mythology, where the churning of the milky ocean was pursued to obtain the nectar of immortality ("Amrit"), the current churning within the insurance industry mirrors this metaphorical journey. Just as the mythological churning yielded both positive and negative elements, the contemporary transformation in the insurance sector is simultaneously generating both advantageous and challenging outcomes. The overarching goal remains steadfast: achieving comprehensive insurance coverage accessible to all segments of society while adeptly addressing obstacles that surface along the way.

As these changes continue to unfold, the industry is on a trajectory that promises to reshape its landscape and redefine its parameters in the years ahead. The path might be winding, with obstacles and opportunities intertwined, but the journey toward a more inclusive and innovative insurance sector is undeniably underway.

FINANCIAL SERVICES

Equity Outlook

India unstoppable ….mother of all bull market lies ahead of us

CMA Dhiraj Sachdev
Managing Partner & CIO
Roha Asset Managers LLP

In a world where inflation and high interest rate is stressing western developed markets and in an environment where deflation and multi-year slow-down is upsetting China, India is hitting the right chord with accelerated structural reforms that will enable the domestic economy to a sustained long term growth path.

Here are some potential big changes or reforms initiated that could contribute to a bullish outlook for Indian equity investors –

1. **Manufacturing Push:** Initiatives to promote domestic manufacturing through schemes like "Make in India" is expected to go a long way in reducing dependence on imports and boost job creation.
2. **Tax Reforms:** Continued implementation of structural reforms such as the Goods and Services Tax (GST), Insolvency and Bankruptcy Code (IBC), and labour reforms are improving transparency, ease of doing business and formalisation of Indian economy from unorganised or "parallel economy".
3. **Infrastructure Development:** Significant investment in infrastructure projects, such as roads, railways, ports, and green / renewable energy, is getting implemented to enhance connectivity, reduce logistics costs, and spur economic growth.
4. **Digitalization and Technology Adoption:** Embracing digital technology and fostering innovation across various sectors is leading to productivity gains and increased competitiveness.
5. **Financial Sector Reforms:** Strengthening the banking and financial sector through measures like recapitalization of banks, reducing non-performing assets (NPAs), and enhancing regulatory frameworks is contributing to economic stability and better health of the financial sector.
6. **Agricultural Reforms:** Continued efforts to modernize the agricultural sector, improve supply chains, and enhance farmer income is expected to drive rural economic growth.
7. **Green or Renewable Energy:** India's commitment to renewable energy presents investment prospects in solar, wind, and other sustainable energy sources. The country aims to significantly increase its renewable energy capacity in the coming years.
8. **Real Estate:** The urbanization trend is driving demand for housing and commercial real estate. Long-term investors can explore opportunities in real estate development or shares of select real estate companies especially in growing cities. It is important to be with players who possess deep pockets, brand and trust equity.
9. **Sustainable Investing:** Environmental and social awareness is growing, leading to increased interest in sustainable and socially responsible investing. Businesses addressing environmental and social challenges are the ones for long-term investors.

Large part of India's economic progress and growth over the next decade hinges on rise of India's (A) Digitisation efforts, (B) Aspirational consumption and (C) Impetus on manufacturing.

India's digitization efforts have the potential to bring about numerous benefits across various sectors of the economy and society. Some of the key ongoing benefits of digital India are as enumerated below:

1. **Financial Inclusion:** Digitisation has enabled the expansion of financial services to previously underserved and unbanked populations. Through mobile banking, digital wallets, and online payment platforms, millions of people now have access to banking and financial services.
2. **Ease of Doing Business:** Digitization of government services and regulatory processes has streamlined bureaucracy and reduced red tape, making it easier for businesses to register, obtain licenses, and navigate administrative procedures.
3. **Digital Payments and Cashless Economy:** The widespread adoption of digital payment platforms has reduced the reliance on cash transactions, leading to increased transparency, reduced tax evasion, and enhanced convenience for consumers and businesses.
4. **E-Governance and Public Services:** Digitization of government services has improved the delivery of public services, from obtaining birth certificates to applying for government benefits. This has reduced corruption, improved efficiency, and enhanced citizen engagement.
5. **Education and E-Learning:** Digitisation has expanded access to education through online learning platforms, especially in remote and rural areas. This has the potential to bridge educational gaps and improve overall literacy rates.
6. **Healthcare and Telemedicine:** Digital technologies have facilitated remote healthcare consultations, diagnostics, and the sharing of medical records. This is particularly important in a country as vast as India, where access to healthcare can be a challenge in rural areas. More needs to be done in area of healthcare provision to rural population.
7. **Smart Cities and Urban Planning:** Digitization is improving urban planning, infrastructure management, and resource allocation in cities. Smart city initiatives use data and technology to enhance citizen services, traffic management, waste management, and more.
8. **E-Commerce and Retail:** The rise of e-commerce has provided consumers with a wider range of products and services, improved price transparency, and created new opportunities for businesses to reach customers.
9. **Digital Skills and Job Opportunities:** As digitization advances, the demand for digital skills has grown. This has led to the creation of job opportunities in fields such as software development, digital marketing, data analysis, and more.
10. **Agriculture and Rural Development:** Digital tools is expected to provide farmers with real-time weather information, market prices, and best practices for cultivation. This helps increase agricultural productivity and income.
11. **Environmental Sustainability:** Digitization is expected to be leveraged to monitor and manage environmental resources more effectively, such as through smart water and energy management systems. These resources are critical to India's development and had seen shortages in the past.
12. **Innovation and Entrepreneurship:** Digital platforms and tools have lowered barriers to entry for start-ups and entrepreneurs. This has led to the growth of the technology ecosystem and increased innovation.
13. **Data-Driven Decision Making:** Digitization generates large amounts of data that can be analyzed to make informed decisions in various sectors, from business strategies to public policy.
14. **Social Empowerment:** Digitization has provided a platform for marginalized groups to have their voices heard, share their stories, and advocate for their rights.

Overall, **India's digitization efforts have the potential to transform the country** by driving economic growth, improving governance, enhancing citizen services, and fostering innovation. However, it's important to address challenges such as digital literacy, cybersecurity, and data privacy (a bill which is recently passed by govt.) to ensure that the benefits of digitization are accessible to all segments of society.

India's business to benefit from aspirational consumption

"Aspirational consumption" refers to the desire of individuals to buy products and services that are perceived as higher in quality, status, or luxury. This ongoing trend can have a significant impact on businesses across various sectors in India. Here's how businesses are beginning to benefit from aspirational consumption in the country:

1. **Luxury Goods and Premium Brands:** As disposable incomes is rising with a larger middle class emerging, there is an increasing demand for luxury goods and premium brands. Businesses in sectors such as fashion, accessories, liquor & beverages, automobiles

and electronics are tapping into this trend by offering high-quality products that cater to consumers' aspirations for status and exclusivity.

2. **Retail and E-Commerce:** The growth of aspirational consumption drives demand for organized retail and e-commerce platforms that provide access to a wide range of premium and aspirational products. Businesses that offer a convenient and seamless shopping experience, along with curated selections, are attracting aspirational consumers.
3. **Real Estate and Housing:** Aspirational consumption extends to housing choices, with more people aspiring to own homes in well-designed, premium developments. Real estate developers are capitalising on this trend by creating properties that offer modern amenities, aesthetics, and lifestyle features. The real estate sector is seeing one of the biggest shift from unorganised local builders to a more deep pocketed large organised developers. Additionally, “Black money” or illegal cash component is getting eliminated in many of today’s real estate transactions.
4. **Travel and Hospitality:** As individuals seek unique and memorable experiences, businesses in the travel and hospitality sectors are benefiting from providing luxury and aspirational travel packages, boutique hotels, and personalized services.
5. **Health and Wellness:** Consumers are increasingly willing to invest in health and wellness products and services that enhance their overall well-being. Businesses offering premium health foods, fitness equipment, spa services, and wellness retreats catering to this demand are expected to benefit from India’s affordable consumption boom.
6. **Entertainment and Leisure:** The entertainment sector, including cinemas, theme parks, and high-end entertainment venues, are attracting aspirational consumers by offering exclusive experiences and cutting-edge technologies.
7. **Education and Skill Development:** Aspiration for higher education and skill development drives demand for premium educational institutions, vocational training centres, and online courses that promise better career prospects.
8. **Automobiles:** The automotive sector is witnessing benefit from aspirational consumption through the demand for high-end cars, including luxury and sports cars, as well as technological innovations in vehicles like the launch of electric vehicles.
9. **Consumer Electronics and Gadgets:** As technology becomes more integrated into daily life, consumers aspire to own the latest gadgets and electronic devices. Businesses that offer innovative and premium electronic products are expected to benefit from this trend.
10. **Financial Services:** Aspirational consumers often seek financial products and services that align with their desire for a better lifestyle. This includes higher demand for premium banking services, investment opportunities and asset / wealth management services.
11. **Food and Dining:** Businesses in the food and beverage industry that cater to aspirational consumption by offering gourmet dining experiences, exclusive chef collaborations, and high-quality ingredients are also witnessing better occupancy. Additionally, India’s QSR (Quick Service Restaurant) is expanding across cities and small towns/tier 2 cities by expanding more franchise relationships.
12. **Beauty and Personal Care:** As people aspire to improve their appearance and well-being, businesses in the beauty and personal care sectors can benefit from offering premium skincare, cosmetics, and spa treatments.

    Selective companies / businesses that focus on creating value, delivering exceptional customer experiences, and effectively communicating the uniqueness and exclusivity of their products or services are likely to benefit from the aspirational consumption trend in India.

India's manufacturing sector has been gaining momentum and is poised for significant growth. Several factors contribute to the belief that India's manufacturing time has come:

1. **Government Initiatives:** The "Make in India" initiative, aimed at promoting domestic manufacturing and attracting foreign investment, has led to policy reforms, ease of doing business measures, and infrastructure development that support the manufacturing sector. **PLI scheme is a game-changer** and it has already influenced mega capex cycle initiative across several sectors & businesses to boost India’s manufacturing. The "Make in India" initiative is creating opportunities for investors in sectors like electronics, textiles, chemicals, and automobiles, etc. 3 years since the commencement of PLI scheme, out of the envisaged capex of **5 lac crore**, the govt. has so far received investment commitment for 3 lakh crore by 733 applicants.
2. **Supply Chain Diversification:** The disruption caused by global events has

highlighted the importance of diversified supply chains. India is being seen as an attractive alternative to China for manufacturing due to its stable political environment and growing infrastructure.

3. **Entrepreneurial Culture:** A growing entrepreneurial ecosystem is fostering innovation and the creation of start-ups in various manufacturing-related fields.
4. **Foreign Direct Investment (FDI):** India's efforts to attract foreign investment have led to increased interest from multinational companies looking to establish manufacturing operations in the country.
5. **Strategic Sectors:** The government's focus on strategic sectors like electronics manufacturing, defense production, medical devices, mining and more provides opportunities for growth and technological advancement.

A few factual indicators and trends of rising India -

In 2015, we had the largest number of people without electricity access in the world. But now we (India) have wired 100% of households.

Foxconn, a third party phone and peripherals manufacturer has announced investments of over Rs $600 mn in setting up factories in India.

Mercedez-Benz India is driving luxury car sales, not just in numbers, but also in value. Of the 8258cars it sold inH1CY23, 25% were priced above 1.5 crore and 60% priced between 60 lacs and 1.5 crore. This implies that India market is maturing.

A whopping 7.6 crore people hopped on planes during the first six months of 2023. India's air traffic is zooming.

Indigo placed an order for 500 aircraft from Airbus, a new record for the largest ever single aircraft purchase by any airline with Airbus. Air India (Tata) to bring 470 aircraft from Airbus and Boeing.

Fast food chains like McDonalds — once only available in three, maybe four cities — are now setting up in Salem, Erode and Belgaum. Meanwhile, e-commerce mammoth Amazon saw 68% of its sign-ups originate from tier 2 and 3 cities, during its Great Indian Festival last year.

India presents various opportunities for long-term investors due to its sustainable and relatively higher growth economy, demographic advantages and above mentioned ongoing structural reforms. The building blocks are clearly in place for a positive India cycle. It is estimated that Indian economy will become close to $20 to 25 trillion in the coming decade, a growth of 5 to 6x from current levels. This is truly India's decade whose time has come on global stage – and one should not dare to miss it!

Happy Investing.

Summary of Digital Data Protection Act, 2023

CMA Vadapalli Srinivas
Former Head- Legal of one of the Leading Life Insurance Companies in India

Foreword:

Data is considered as wealth. Right to Privacy is declared to be a Fundamental Right and thus every citizen has a right to privacy. Service Providers do collect certain personal information from their customers. Information Technology (Reasonable security practices and procedures and sensitive personal data or information) Rules, 2011 were notified on 11th April 2011. As per the Rule 3 of the said Rules, Sensitive personal data or information of a person means such information which consists of information relating to [i] password; [ii] financial information such as Bank account or credit card or debit card or other payment instrument details; [iii]physical, physiological and mental health condition; [iv]sexual orientation; [v] medical records and history; [vi] Biometric information; [vii] any detail relating to the above clauses as provided to body corporate for providing service and [viii] any of the information received under above clauses by body corporate for processing, stored or processed under lawful contract or otherwise. Under the said Rules [Rule-6], Disclosure of sensitive personal data or information by body corporate to any third party shall require prior permission from the provider of such information. Section 43 A of the Information Technology Act, 2000 deals with compensation for failure to protect data.

It is noteworthy that Section 38 of the Digital Data Protection Act, 2023 clearly states that the provisions of this Act shall be in addition to and not in derogation of any other law for the time being in force. However, in case of any conflict between a provision of this Act and a provision of any other law, the provision of this Act shall prevail to the extent of such conflict.

Thus, all the laws dealing with personal data protection shall matter. This is an era when the Banking and Financial Services Sector deals with a lot of personal data of their customers. Hence, it is apt to understand the basic structure of the Digital Data Protection Act, 2023. An attempt is made to summarize the salient features of the Act and for full details and appreciation of the Act, the Act may be referred to.

The Digital Data Protection Act, 2023 received the assent of the President of India on 11 August, 2023 and is published in the Gazette on 11 August, 2023. An attempt is made to summarize the important aspects of the Act. The objective of the Act has been notified as "An act to provide for the processing of digital personal data in a manner that recognizes both the right of individuals to protect their personal data and the need to process such personal data for lawful purposes and for matters connected therewith or incidental thereto."

It is stated that the Government may notify different dates for different provisions of the Act. Section 2 deals with various definitions. Let us examine some of the definitions:

1. "Data Principal" is defined as the individual to whom the personal data relates and where such individual is a child, Data Principal includes the parents or lawful guardian of such a child. In case of a person with disability, Data Principal includes lawful guardian.
2. "Child" is defined as an individual who has not completed the age of 18 years.
3. "Board" means the Data Protection Board of India established by the Central Government.
4. "Consent Manager" means a person registered with the Board, who acts as a single point of contact to enable a Data Principal to give, manage, review and withdraw her/his consent through an accessible, transparent and interoperable platform.
5. "Data Fiduciary" means any person who alone or in conjunction with other persons, determines the purpose and means of processing of personal data.
6. "Data Processor" means any person who processes personal data on behalf of a Data Fiduciary.
7. "Digital Personal Data" means personal data in digital form.
8. "Personal Data" means any data about an individual who is identifiable by or in relation to such data.
9. **"Persona Data Breach" means any unauthorized processing of personal data or disclosure, acquisition, sharing, use, alteration, destruction or loss of access to personal data, that compromises the confidentiality, integrity or availability of personal data.**

10. "Significant Data Fiduciary" means any Data Fiduciary or class of Data Fiduciaries as may be notified by the Central Government.
11. "Data Protection Officer" means an individual appointed by the Significant Data Fiduciary.

Note: It may be observed that "Personal Data Breach" has been extensively defined and includes unauthorized acquisition, use, alteration, destruction or loss of access to personal data.

- This Act shall apply to the processing of digital personal data within India where the personal data is collected in digital form or where the personal data is collected in non-digital form and digitized subsequently. **This Act shall also apply to processing of digital personal data outside the territory of India, if such processing is in connection with any activity related to offering of goods or services to Data Principals within the territory of India.** This Act shall not apply to personal data processed by an individual for any personal or domestic purpose. This Act shall not also apply to the personal data that is made or caused to be made publicly available by the Data Principal to whom such personal data relates or by any other person who is under an obligation under any law for the time being in force in India to make such personal data publicly available. If an individual has publicly made available her/his personal data on social media, the provisions of the Act shall not apply.

- A Data Fiduciary can process the personal data of a Data Principal only for a lawful purpose for which the Data Principal has given his/her consent. T**he consent given by the Data Principal shall be free, specific, informed, unconditional and unambiguous with a clear affirmative action** and shall signify an agreement to the processing of his/her personal data for the specified purpose and be limited to such personal data as is necessary for such specified purpose.
  - For example, While downloading a telemedicine app, if an individual consents to the processing of his/her personal data and also for accessing his/her mobile phone contact list, since phone contact list is not necessary for telemedicine services, the consent shall be limited to the processing of his/her personal data for providing telemedicine services.
  - Any part of the consent which constitutes any infringement of the Act or any other law, shall be invalid. For example, while buying an insurance policy on a mobile app or website of an insurer, any individual consents to the processing of his/her personal data by the Insurance Company and also waives his/her right to file a complaint to the Data Protection Board of India, the consent relating to waiver of his/her right to file a complaint, shall be invalid.
  - Every request for consent under the provisions of this Act or rules made thereunder should be presented to the Data Principal in a clear and plain language, giving him/her the option to access such request in English or any language specified in the Eighth Schedule of the Constitution. The contact details of the Data Protection Officer, where applicable, or of any authorized person by the Data Fiduciary should also be provided to respond to any communication from the Data Principal.
  - Where consent given by the Data Principal is the basis of processing of personal data, such Data Principal shall have the right to withdraw his/her consent with the ease of doing so being comparable to the ease with which such consent was given.
  - The consequences of withdrawal of consent shall be borne by the Data Principal and such withdrawal shall not affect the legality of processing of the personal data based on consent before its withdrawal. For example, if a Data Principal uses an online shopping app or website and consents to the processing of his/her personal data for the purpose of fulfilling his/her supply order and makes the payment for the same and subsequently withdraws the consent, the App/website Operator may stop enabling the Data Principal to use the app or website but may not stop the processing of the order for the supply of goods already ordered and paid by the Data Principal.
  - If a Data Principal withdraws his/her consent to the processing of personal data, the Data Fiduciary shall, within a reasonable time, cease and cause its Data Processors to cease processing the personal data of such Data Principal unless such processing without her consent is permissible under the provisions of the Act or any other Law in force in India.
  - The Data Principal may give, manage or withdraw her consent to the Data Fiduciary through a Consent Manager who will be accountable to the Data Principal and shall act on behalf of the Data Principal subject to the prescribed obligations. Every Consent Manager should be registered with the Data Protection Board of India.
  - Where a consent given by the Data Principal is the basis of processing of personal data and if there is any dispute in this regard, the Data Fiduciary should prove that a notice was given to the Data Principal and consent was given by such Data Principal to the Data Fiduciary as per the provisions of the Act and the rules made thereunder.

DATA FIDUCIARIES

- The Data Fiduciary should make a request to the Data Principal for consent informing him/her the purpose for which the personal data is proposed to be processed, the manner in which the Data Principal may exercise her/his rights and the manner in which the Data Principal may make a complaint to the Board.

- ❖ A Data Fiduciary may process personal data of a Data Principal for the specified purpose for which the Data Principal has provided his/her data and in respect of which it is not indicated to the Data Fiduciary that the Data Principal does not consent to the use of his/her personal data.
- ❖ A Data Fiduciary shall be responsible for complying with the provisions of the Act and the rules made thereunder in respect of any processing undertaken by it or on its behalf by a Data Processor.
- ❖ A Data Fiduciary may engage a Data Processor to process personal data on its behalf only under a valid contract.
- ❖ A Data Fiduciary processing personal data should ensure its completeness, accuracy and consistency of the personal data processed if it is likely to be used to make a decision that affects the Data Principal or is likely to be disclosed to another Data Fiduciary.
- ❖ A Data Fiduciary should protect personal data in its possession by taking reasonable security safeguards to prevent personal data breach.
- ❖ In the event of a personal data breach, the Data Fiduciary should intimate the Board and each affected Data Principal, in the prescribed manner.
- ❖ A Data Fiduciary shall, unless retention of data is necessary for compliance with any law, erase personal data, upon the Data Principal withdrawing her consent or as soon as it is reasonable to assume that the specified purpose is no longer being served, whichever is earlier and should also cause its Data Processor to erase any personal data that was made available by the Data Fiduciary.
- ❖ A Data Fiduciary should publish the business contact information of a Data Protection Officer, if applicable, or any other Officer to respond on behalf of the Data Fiduciary to the queries raised by the Data Principal about the processing of his/her personal data.
- ❖ A Data Fiduciary should obtain verifiable consent of the parent of a child or a lawful guardian of a person with disability before processing any personal data of a child or a person with disability, in the prescribed manner.
- ❖ A Data Fiduciary should not process personal data that is likely to be detrimental to the well-being of a child. A Data Fiduciary should not undertake tracking or behavioural monitoring of children or targeted advertising directed at children.
- ❖ The Central Government may notify any Data Fiduciary or class of Data Fiduciaries as "Significant Data Fiduciary" on such relevant factors as the volume and sensitivity of personal data processed, risk to the rights of Data Principal, potential impact on the sovereignty and integrity of India, risk to electoral democracy, security of the State and public order.
- ❖ A Significant Data Fiduciary should appoint a Data Protection Officer.
- ❖ The Data Protection Officer represents the Significant Data Fiduciary, should be based in India; should be responsible to the Board of Directors or similar governing body of the Significant Data Fiduciary and be the point of contact of the grievance redressal mechanism under the Act.
- ❖ A Significant Data Fiduciary also should appoint an independent data auditor to carry out data audit to evaluate the compliance of the Significant Data Fiduciary with the provisions of the Act.
- ❖ A Significant Data Fiduciary should also undertake periodic Data Protection Impact Assessment, periodic audit and such other measures as may be prescribed under the Act.

RIGHTS AND DUITES OF DATA PRINCIPAL

1. The Data Principal shall have a right to obtain from the Data Fiduciary
   - A summary of personal data which is being processed by such Data Fiduciary and the processing activities undertaken by the Data Fiduciary with respect to such personal data.
   - The identities of all other Data Fiduciaries and Data Processors with whom the personal data has been shared by such Data Fiduciary along with a description of data so shared.
   - Any other information related to the personal data of such Data Principal.

     [However, a Data Fiduciary may be authorized by law to obtain such personal data as is necessary, by a written request to any other Data Fiduciary, for prevention or detection or investigation of offenses or cyber incidents or for prosecution or punishment for offences].

2. A Data Principal shall have the right to correction, completion, updating and erasure of his/her personal data for the processing of which he/she has given consent. A Data Fiduciary, upon receiving a request for correction, completion or updating from a Data Principal, shall correct the inaccurate or misleading data, complete the incomplete personal data and update the personal data. Upon receipt of a request for erasure of personal data from a Data Principal in the prescribed manner, the Data Fiduciary shall erase his/her personal data unless retention of the same is necessary for the specified purpose or for compliance with any applicable law.
3. A Data Principal shall have the right to have readily available means of grievance redressal provided by a Data Fiduciary or Consent Manager. The Data Fiduciary or Consent Manager shall respond to the grievances within the prescribed period. The Data Principal should exhaust the grievance redressal mechanism offered by the Data Fiduciary or Consent Manager before approaching Board.
4. A Data Principal shall have the right to nominate in the prescribed manner, any other individual, who shall, in the event of death or incapacity of the Data

Principal [unsoundness of mind or infirmity of body of the Data Principal], shall exercise the rights of the Data Principal.

5. A Data Principal shall …
    - Comply with the provisions of all applicable laws while exercising rights under the provisions of this Act.
    - Ensure not to impersonate another person while providing his/her personal data.
    - Ensure not to suppress any material information while providing her / his personal data for any document, unique identifier, proof of identity, proof of address issued by the State or any of its instrumentalities.
    - Furnish only verifiably authentic information.

SPECIAL PROVISIONS:

1. The Central Government may restrict transfer of personal data by a Data Fiduciary for processing to such country or territory outside India as may be so notified.
2. Any law that provides for a higher degree of protection for or restriction on transfer of personal data by a Data Fiduciary outside India shall continue to be valid.
3. The Act provides for exemption from certain sections under certain special circumstances like where the processing of personal data is necessary for enforcing any legal right or claim, the processing of personal data by any court or tribunal or any quasi-judicial body … etc

DATA PROTECTION BOARD OF INDIA

Data Protection Board of India shall be established by the Central Government by notification to receive and inquire into the complaints of personal data breach received from Data Principals and impose penalty as provided in the Act. Any person aggrieved by an order or direction made by the Board may prefer an appeal before the Appellate Tribunal. All sums realized by way of penalties imposed by the Board under this Act, shall be credited to the Consolidated Fund of India. Civil courts shall not have jurisdiction to entertain any suit or proceeding in respect of any matter for which the Board is empowered under this Act.

It may be noted that the penalties listed under the Act for Breach of any provisions of the Act or Rules made thereunder are very high. Sub section [5] of Section [8] of the Act reads: "**A Data Fiduciary shall protect personal data in its possession or under its control, including in respect of any processing undertaken by it or on its behalf by a Data Processor, by taking reasonable security safeguards to prevent personal data breach.**" If there is a Breach in observing the obligation of Data Fiduciary to take reasonable security safeguards to prevent personal data breach, the penalty may extend to two hundred and fifty crore rupees.

The Data Fiduciaries have greater responsibilities to ensure protection of personal data and the Data Principals have been given clear rights and there is a Statutory Board to deal with complaints of data breaches.

Note: The views expressed in this article are personal

Investing Styles - The Value vs. Growth Conundrum

Shri Dibyendu Mukherjee
Personal Finance Professional

A widely prevalent view on investing, a generation ago, was that it was impossible to beat the market returns over the long-term. It was a corollary to the "Efficient Market Hypothesis" (EMH) propounded by Chicago University Professor and Nobel Laureate Eugene Fama in 1970s. The underlying idea was that the market is efficient enough to factor in all available information in the stock prices, and there is no scope to gain from sustained mispricing of assets. However, investors like Warren Buffet managed to consistently outperform the market over longer period of time by exploiting the gap between "price" and "value", in apparent contradiction to EMH.

The concepts of "Value and Growth", as different styles of investing, were extensively covered by Eugene Fama and Kenneth French in their 1992 "Three-Factor Model" to help explain "Alpha"- long-term investment returns in excess of the market.

Deciphering Growth & Value

Growth stocks are the ones expected to grow faster than the market and the industry in terms of revenue, earnings growth and cash flows. These companies reinvest the majority of their cash flows into capital and operating expenses due to their priority of rapid business expansion. Discernably, such companies will have low dividend pay-out ratios. Owing to high growth outlook, these companies tend to trade at higher valuation (P/E ratio), compared to its peers. Investment in growth stocks is based on the premise that even at high P/E ratios these stocks are attractive as high growth and Return on Equity (ROE) will justify higher valuations. The valuation ratios used to assess relative valuation of typical growth stocks include P/E, the PEG (price to earnings growth), price to sales (P/S), Enterprise Value/EBITDA (EV/EBITDA) etc.

Value investing, on the other hand, entails scouting for fundamentally good stocks that are trading at discount to their "Intrinsic" Value due to cyclical factors, adverse short-term perceptions or other macro factors. The return is realised as the *mean reversion* plays out and market price climbs towards intrinsic value, thereby closing the "value gap". Evidently, such stocks trade at lower Price-to-Book (P/B) value, and are perceived to be undervalued as prices are low relative to intrinsic value, i.e. Book Value. Value stocks are characterised by high dividend yields that attracts investors, apart from the potential capital appreciation. Benjamin Graham and David Dodd of the Columbia Business School pioneered the use of intrinsic value and *Discounted Cash Flow (DCF)* for value investing in the 1920s.

Drivers of Growth and Value

The Discounted Cash Flow formula provides us a great perspective regarding categorisation of the styles of investment.

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \ldots + \frac{CF_n}{(1+r)^n}$$

DCF — Discounted Cash Flow; which is the sum of all future discounted cash flows
CF — Cash flow for a given year
r — Discount rate, or the target rate of return on the investment

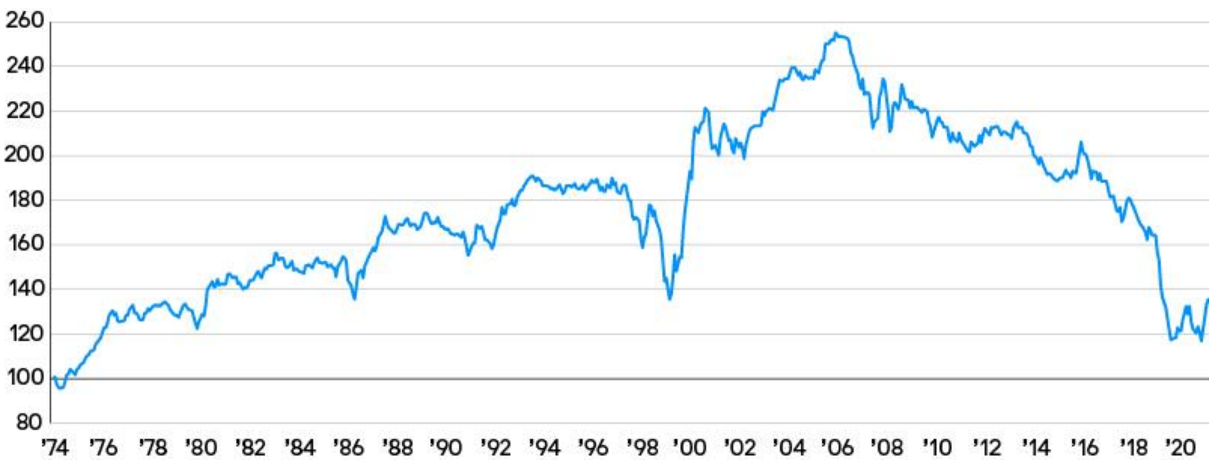
Growth stocks often derive a bigger portion of their value from cash flows farther out in the future due to their ability to potentially grow their cash flows over time and generate a higher *return on assets*. Hence, they tend to exhibit more sensitivity to changes in the discount rate(r) - representing cost of capital - which affect the denominator in the discounted cash flow formula (see above). Contrarily, Value stocks' cash flows are typically more evenly spread out, and so are less sensitive to changes in interest rates. This has implications for investors' behaviour: when cost of capital is low, investors tend to invest in the future, i.e., Growth stocks. However, when the inflation rate is high and central banks raise interest rates to combat it, capital becomes relatively expensive. This propels investors to focus on companies that have a shorter duration, i.e., Value stocks.

Value and Growth environments are marked by very distinct secular Macro-economic drivers. Value dominance tends to assert itself when economic growth is strong, inflation is high and interest rates are elevated. By contrast, Growth stocks often outperform when inflation is low, economic growth is relatively weak and rates are low and falling.

A Historical Perspective - Global

Value has a long track record of outperformance, dominating the period between 1970 and early 2007 (Exhibit 1). This period marks prevalence of high inflation and rising interest rates. Value dominance continued almost until the 2008 Global Financial Crisis (GFC). The post-GFC era was characterized by a period of subdued economic growth and low inflation. This prompted central banks to go out of their way to stimulate the economy by keeping interest rates near zero or even negative and flooding the markets with cheap money through quantitative easing programs. With the cost of capital negative and growth scarce, investors resorted to Growth- style investing by putting their money in the few companies that delivered earnings growth

Exhibit 1: Cumulative excess returns of MSCI World Value vs. MSCI World Growth



Source: MSCI, Bloomberg. Data as of 28 February 2022

Growth outperformance peaked in 2020, when the COVID-19 pandemic sent global economic growth into a deep contraction and central banks went into expansionary monetary policy overdrives lowering interest rates and expanding their balance sheets through bond buying programs. As the world moved online, "Growth" benefitted as innovation and disruptions accelerated, and the digital uptake took centre stage. On the other hand, many "Value" sectors saw their revenues disappear due to widespread lockdowns.

The latest comeback of Value stocks happened with the announcements of COVID-19 vaccine in November 2020 by Pfizer (Exhibit 1). Arrival of vaccines allowed countries to reopen; and subsequent surge in economic activities led to a sharp increase in inflation. This was exacerbated by the war in Ukraine and consequent supply disruptions, prompting central banks to embark on the fastest and steepest monetary tightening cycle in decades. The post-pandemic environment of stubbornly high inflation, higher bond yields and above-potential growth saw the resurgence of Value investing after almost 13 years of underperformance.

Which Style to Choose?

While investors like Benjamin Graham and Warren Buffet are identified with Value style investing, investors like Thomas Rowe Price and Philip Fisher have successfully generated market-beating performances following the Growth style. Hence, both investing styles command strong arguments in their favour. Growth stocks tend to outperform when the macroeconomic cycle and corporate performance are maintaining a steady positive momentum and market is in a rally. Value stocks, on the other hand, dominate during weak and consolidation phase. Such stocks, usually, outperform early in an economic recovery cycle, but lag in a sustained bull market.

A section of financial analysts believe that the risks to global macro environment are skewed in favour of continued Value outperformance in coming days. The global inflation environment continues to be volatile, and inflation rates are likely to remain above central banks' targets for some more time. Confronted with elevated inflation, central banks are unlikely to rush into cutting rates this year. And while economic growth has been slowing—which would normally boost Growth stocks—it has been better than expected. Others may argue that the future macro drivers could be supportive of Growth investing led by muted economic growth environment (hard –landing of US economy), low inflation and interest rates.

Empirical data suggest that even within the broad secular market trends, there will be brief periods of intermittent reversals. A look at past cyclical inflection points (Exhibit 1) demonstrates that the periods of secular trends of style dominance (1970 -2007 for Value, and 2007 - 2020 for Growth) contain bouts of outperformance of one style over the other. Hence, there could be multiple scenarios in the market in terms of style dominance. To perform better than the market, the portfolio may need to be twisted between growth & value stocks based on the market trends. While these kinds of *style rotations* add value to the portfolio, the degree of difficulty in timing correctly appears high for average investors.

Practically speaking, Growth and Value are not exactly discrete choices. A balanced approach of having a blend of Growth and Value stocks as a "strategic" portfolio holding is a rewarding proposition, and practised by seasoned investment professionals for risk diversification and superior portfolio performance. Additionally, "tactical" positioning of different styles based on cyclical trends, for generation of alpha, is also advocated in investment literatures.

It is worth mentioning, to conclude, that in search of attractive value opportunities, investors often fall prey to what is known as "value trap". A company having a track record of poor "returns on capital" across market cycles along with high debt is unlikely to offer decent return, no matter how attractive the valuation look. Instead, the continued price erosion of such stocks can leave the value gap unrecovered for ever. Trying to catch such falling knives is met with disastrous consequences. Likewise, euphoria and abundant liquidity may aid growth stocks to climb dizzy heights of valuation without being backed by strong and sustainable earnings growth. The vulnerability of such stocks stands exposed once the euphoria fades and liquidity dries up. An in-depth analysis of the companies' fundamentals, hence, is non-negotiable irrespective of the styles of investing chosen by the investor!!

Notes:

1. The Author is former Regional Head –East in Deutsche Bank Mutual Fund, and also worked in senior positions in UTI Mutual Fund and ICICI Securities Private Wealth Management.
2. Author can be reached out at 'mukhdibyendu@gmail.com'
3. The article is for academic purpose only, and should not be construed as any advice/recommendation from the Author.
4. The performance analysis of growth and value is based on movements of MSCI World Growth Index, MSCI World Value Index, and MSCI World Index et al.
5. Data Sources: Various business dailies, websites and journals.

A Tryst with Volatility

Shri Biplab Chakraborty
General Manager (Ret.)
DBS, RBI, Kolkata

Introduction

The term volatility is ubiquitous in the fields of business and fiancé. Risk can be measured by standard deviation of unexpected outcomes called volatility. Loss can occur through combination of two factors e.g, volatility of underlying financial variable and the exposure to the relevant risk factors.

Volatility can be seen as a quality or state of being likely to change abruptly with random frequency and amplitude over a certain period. The term 'Volatile' has contextual connotations too. Volatility of the political situation concerns about volatility in the economy i.e, market, price, currency, geopolitical volatilities. The more abrupt are the swings in the of variable of interest (e.g., prices of shares, securities, value of portfolio of assets/liabilities, bonds, price of commodities, exchange rates etc) , the higher would be the level of volatility.

Volatility defined

Broadly speaking volatility is a measure of uncertainty embedded in future movements in value of a variable of interest(Viz., stock/ bond price, interest rate, forex rate, value of portfolio of assets, commodity prices etc.,) and importance. In investment the term is used to refer to situations wherein a market or a security underdo periods of unpredictable, and sometimes sharp, price movements. Volatility refers to both upside and down side fluctuations in values of some random variables of interest.

In financial market Volatility refers to is a statistical measure of the price dispersion around the expected value of a given security or market index. In most cases, the higher the price volatility, the riskier is the security. A higher volatility signifies potential dispersion over a wide range of values. It refers to spectacular changes in the security price over a short time period in either direction. A lower volatility means that a security's value does not fluctuate intensely, and tends to be steadier.

The stock market is under constant flux of changes. The market often experiences unpredictable and unexpected price movements. Based on the frequency and amplitude of price changes we call market is less or more volatile. As volatility increases the chance that the stock will perform well or very poorly increases. The bigger and more frequent the swings are, the more volatile the variable is said to be.

Volatility is an important metric for all traders, including short-term day traders and swings traders, whose primary focus is on making profits creating opportunity out of daily and weekly price fluctuations.

Market volatility is the dispersion(standard deviation) of the stock market daily returns from the expected. *Volatility can be measured based on actual historical price changes (realized volatility) or it can be a measure of expected future volatility that is implied by option prices.*

Importance of volatility

Market volatility is considered important for three reasons! (i) Market volatility is a risk metric, so greater the volatility greater is the risk in the market. (ii) Volatility is autonomous and therefore cannot be prevented. It can only be managed taking advantage of it or seeking hedge against potential adversities. Volatility strategies may provide scope for upside opportunities and risk mitigation(iii) There is an inverse relationship between volatility and the stock market returns. Lower the volatility, higher the returns and vice versa.

Financial markets are often quite volatile exhibiting sharp swings in the prices periodically. Had the markets been without fluctuations there would have been no profit opportunities. Investors and traders thrive on volatility. Although volatility accentuates the risks associated with trading, it can also lead to high returns if traded appropriately.

Volatility is a well-known indicator for measuring asset price risk. It is an important variable in a wide range of applications in the fields of finance and economics, such as risk management, asset pricing, portfolio management and hedging strategies.

A decomposition of the observed volatility of a variable into three components has been suggested by some authors. These components may be identified as Strength, Duration and Persistence of volatility. This decomposition is unique and is such that measurement and analysis of these components will facilitate both a better understanding of the nature of volatility of a variable and, more importantly, a comparison of the patterns of volatility of two or more variables.

Historical and implied volatility

Volatility may be historical or implied. It is often indicated on an annualised basis in percentage terms. Historical volatility is the observed dispersion exhibited by the random variable in focus over a past period say months or a year.

Value of nonlinear financial instrument like option depends, inter alia, on volatility parameter. Therefore, trading in options involves taking volatility bets.

Implied Volatility (IV) is the volatility implied by the current option price. Options are financial contract whose value depends on some underlying variable/index wherein the buyer of option contract has only right to exercise without any obligations whatsoever. Implied Volatility(IV) may be obtained by solving Black-Scholes[1] option pricing equation or other modified models (Whaley model) given the market price of an option and values of other determining parameters e.g., spot price of underlying asset, rate of interest, strike price of the option and time to maturity. Essentially the method consists of inverting the option formula to get the value of implied volatility. It may be noted that Implied volatility refers to average volatility over the life of the relative option instead of instantaneous, overnight volatility. As the option price equation is non-linear, solving for Implied Volatility requires a numerical procedure (viz., Newton-Raphson method).

Volatility, a metric to gauge likely movements and variability of market variable (e.g. share/ security prices/ commodity prices/exchange Rates etc.,), is a popular proxy for market risk. Implied volatility reflects market's view about volatility the underlying asset of an option contract over the currency of period of the contract. Implied volatility being forward looking is more relevant for option pricing.

While historical and implied volatility for a specific stock or asset differs, historical volatility can be a determinant of implied volatility.

Historical Volatility must be estimated from data on changes registered by the variable of interest over time. There are several models for estimation of volatility from historical data. Some popular models have been highlighted elsewhere in this paper.

Option pricing is done based among other parameters on the estimate of volatility of value of the underlying as perceived by the option writer. Higher level of implied volatility will cause option price to increase, and a low level of implied volatility would tend to lower option price. Implied volatility (IV) is perceived variations in underlying prices but does not depict whether the price movement will be positive or negative. High implied volatility means that the market perceives a large price swing. It may be in either direction upward or downward or move vigorously between both ends. Low implied volatility means that the price swing will be minimal. IV differs from historical volatility, which measures the volatility based on historical data. Option IV corresponds to average volatility over the life of the option. For risk management purpose implied volatility is crucial. The advantages of using IV may be enumerated as under:

- Option prices have significant bearing on implied volatility. To project the future value of the option IV forecast is also needed as input. Therefor IV is a major risk factor while measuring option risks
- It is a market sentiment-based indicator of the potential extent of uncertainty in movements of security prices.
- An option investor or a trader can formulate their trading strategies by analysing an option's implied volatility.
- It helps in gauging whether the likely price movement would be too high or low, giving ideas to the investors on how much to invest in security.

The disadvantages of using the movements of IV may be enumerated as under:

- Implied volatility does not track the trajectory of security price movements. It only shows whether the move will be high or low.
- Any news relating to security can impact implied volatility, making it susceptible to exogenous events.
- The fundamentals are not reckoned when calculating implied volatility based on prices, supply & demand, and time value.
- Over dependence on market perception can result in incorrect decision-making and formulation of strategies, leading to investment losses.

Volatility trading

Traders trading on volatility are not concerned about the direction of price movements. They focus on what would be potential future movement of prices. They book profits on increased volatility irrespective of whether prices go up or down . Options are popular in use for trade on volatility. The expected future volatility of an option's underlying variable plays an important role in determination of the value of the option. Options on underlying having a higher expected price /value volatility are generally more valuable. Volatility is positively correlated to option price. When options are used for volatility trading, trader may buy a call and a put option having same strike price and expiration date. In the event of large movement of price of the underlying either the call or put option will become 'in the money' and profit would accrue to the trader. If price of underlying asset shoots up call option generates profit while in the eventuality of price going down would make the put option in the money option yielding profit. More the price moves away from the strike price greater would be profit to the trader. The loss would accrue to the trader only if both put and call are out of the money. This trading strategy is popularly known as long straddle. However, in the case of expected absence of volatility traders can benefit using a short straddle strategy. Under this strategy the trader sells both a put and call option having same strike price and expiration date. In this strategy if the market exhibit minimal volatility the trader profits the premium earned on sell of options. It may be noted that there is also some possibility of unlimited loss in short straddle strategy if the market turns volatile in either direction.

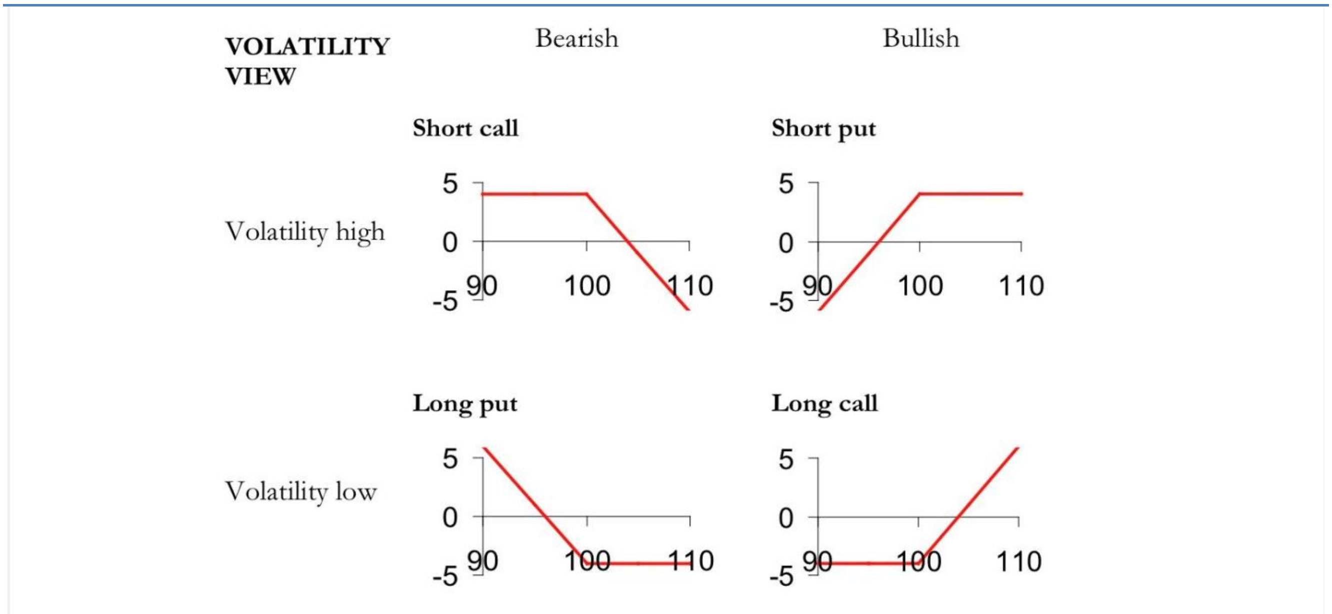


Figure Option strategy for different volatility and market perceptions

Equity Option trading involves a view on equity and volatility. If implied volatility is perceived to be expensive then short volatility strategy would perhaps be the best. The strategy would be to short a put if perception is of a bullish market and to short a call for bearish perception of the market. However, if the implied volatility is perceived to be cheap a long volatility strategy would be the best. Buy a call if market perception is bullish and buy a put if the perception is bearish These have been depicted in the above diagram.

Volatility Forecasting

Volatility forecast is the main requirement in almost all financial models and applications. Volatility is predictable. Investors try to adjust their portfolios to reduce the exposures to assets whose volatility is predicted to increase. In a rational market equilibrium of assets prices will be affected by change in volatility. Investors who can predict volatility with precision will be in position to better control financial market risk.

A very crude method widely used in forecasting volatility is Moving Average(MA) method. If we observe rate of return of an asset R_t (at time 't') over 'N' days the volatility estimate based on MA is as under.

$$\sigma^2_t = \frac{1}{N}\sum_{i=1}^{i=N} R^2_{t-i}$$

On each day the forecast is updated by adding information from the preceding day and dropping information from N+1 day ago. All weights of past data points are constant and equal to 1/N. This simple model has numbers of limitations. Recent observations have the same weight as that of the past observations which may not have same contemporary relevance. Adding and deleting comparatively high/low value of the variable will change the MA measure. This has been termed as "ghost feature". MA changes for no convincing reason.

In this backdrop volatility estimation models evolved that attributes more weightage to recent information. First such model was GARCH (Generalised Auto Regressive Conditional Heteroskedasticity) model. Heteroskedasticity means changing variance. GARCH model assumes variance of returns follows a predictable process. The conditional variance depends on last data point as also previous conditional variance. In the simplest form the model is as under:

$$h_t = a_0 + a_1 * R^2_{t-1} + a_2 * h_{t-1}$$

"h" is the conditional variance given conditions at time **t.** For this model to be stationary sum of parameters $a_1 + a_2$ must be less than one.

This model fits observed data very well. This model can be extrapolated over different time horizon in a consistent manner.

Risk -Metrics adopted a pragmatic model of volatility. Volatilities (Variances) are modelled as exponentially weighted moving average (EWMA) forecast. The forecast for time t is weighted average of previous forecast using a weight **λ** and latest innovation using weightage **(1- λ).**

The equation is as under

$$h_t = \lambda * h_{(t-1)} + (1-\lambda)R^2_{t-1}$$

λ is the decay factor which is less than one. This model envisages geometrically declining weights for the past observations and attaching greater weightage to recent observations. It is indeed a special case of GARCH model wherein a_0 is zero and $a_1 + a_2 = 1$. Exponential model is easy to implement because it relies on a single parameter (λ). For this it is more robust to estimation error than other models. This model does permit mean reversion of volatility which is an observed phenomenon in time series data on volatility. This model and some of its modifications approximate the behaviour of observed actual data very well.

There are some other variants of models of volatility forecasting based on observed historical data which have been left out of the scope of this paper.

Drawback of historical models is that they are one step too late to react after big move. Volatility forecast should ideally be based on information embedded in option values which are forward looking.

Volatility Index

The most popular measure of market volatility is the Chicago Board Options Exchange (CBOE) volatility index (VIX). In 1993, CBOE Global Markets, Incorporated® (Cboe®) introduced the original version of the CBOE Volatility Index® (VIX® Index), which initially was designed to measure the market's expectation of 30-day volatility implied by at-the-money S&P 100® Index (OEX® Index) option prices. Ten years later in 2003, CBOE together with Goldman Sachs, updated the VIX Index to reflect a new way to measure expected volatility. The VIX Index is based on options of the S&P 500® Index. It continues to be extensively used by financial theorists, risk managers and volatility traders alike. The new VIX Index is based on the S&P 500® Index (SPX®), the core index for U.S. equities, and estimates expected volatility by aggregating the weighted prices of SPX puts and calls over a wide range of strike prices. It measures the volatility of the S&P 500 index. It is the first benchmark index to measure the market's expectation of future volatility.

It is a leading indicator of the broad U.S. stock market volatility in the next 30 days. The VIX is designed to reflect investors' view of future US stock market volatility. It is an estimate of how much investors think the S&P 500 Index will fluctuate in the next 30 days. Generally, a VIX reading below 20 suggests a perceived low-risk environment, while a reading above 20 is indicative of a period of higher volatility. The VIX is sometimes referred to as a "fear index," since it spikes during the period of market chaos/disorder or periods of extreme uncertainty. According to the thumb rule of 16, if the VIX is trading at 16, then the SPX is estimated to see average daily moves up or down of 1% (because 16/16 = 1). If the VIX is at 24, the daily moves might be around 1.5%, and at 32, the rule of 16 says the SPX might see 2% daily moves. The square root of number of trading days in a year taken as 256 is 16. Avoiding use of cumbersome steps involving complicated math this rule of 16 is quite a good approximation for the purpose.

There persists a negative correlation between VIX and stock market return. This feature would enable the market players to take advantage of VIX to hedge portfolio risk. CBOE launched the first VIX futures contract in 2004. Two years after , VIX option contracts came into existence. The launch of these contracts has provided powerful tools for investors to stabilize profits and hedge risks. VIX is being frequently used as the leading indicator to forecast the fluctuations of the stock market. When stock index declines, VIX would increase continuously. When VIX reaches to the top, investors will become much more terrified to buy Put Options whatever it costs, which makes the market fall at the bottom soon; when stock index goes up, VIX will drop so that investors will relax their vigilance because of being unrealistically optimistic.

The VIX Index is not directly tradable, but the VIX methodology provides a means to replication of volatility exposure building a portfolio of SPX options. This enables the creation of tradable VIX futures and options. Unlike the S&P 500 Index that is compiled based on prices of a relatively stable portfolio of stocks, the VIX Index is priced using a constantly changing portfolio of SPX options. (SPX Options are exchange-traded European exercise cash settled options based on the value of the S&P 500 Index). With a view to maintaining a constant maturity of 30 days, the portfolio of SPX options comprising the VIX Index changes slightly every single minute. Therefore, the traders may not buy and hold a portfolio of the constituent SPX options of the VIX because traders would then have to rebalance the portfolio continuously to track the VIX Index over time.

India Volatility Index

Following the methodology of compilation of volatility index by CBOE for US and adopting necessary changes to suit appropriately to Indian situations and context , India has launched VIX referred to as the India Volatility index. It measures the volatility that traders may expect over the next thirty days in the NSE index. Simply, it is an estimate of price swings investors may expect in the market in response to important market news. The India VIX is a measure of how much the Nifty 50 index is expected to change in the next 30 days.

Volatility Skew/ Smile

Black Scholes (BS) model shows constancy of implied volatility (IV) across strike price and maturity. But, all options on the same underlying asset and having same expiration date having different strike prices do not have the same implied volatility assigned by the market.

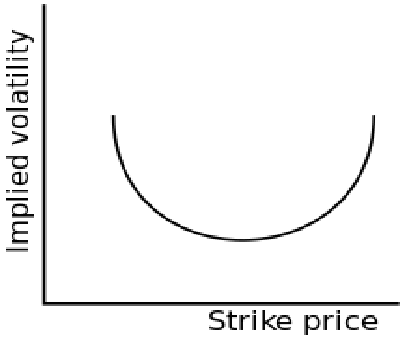


Figure : Volatility Smile

For different strike price the implied volatility assigned by the market is different. IV varies systematically with strike price. If we plot IV against strike price a pattern would be displayed. This pattern resembles a smiling contour as depicted in the diagram above and therefore is called Volatility Smile. The curve would show rise in IV for low and high strike prices relative to current prices. The effect is seen to be prevalent in variety of markets particularly in forex market.

Term Structure of volatility / Volatility surface

It refers to relationship of IV and maturity. This arises due to the fact that uncertainty is not uniformly distributed over time.

The volatility surface is a three-dimensional plot of IV across maturity and strike price. To predict returns on options, traders need to forecast evolution of the volatility surface.

Conclusion

Volatility is dispersion of rate of returns for given assets. Mostly higher the volatility greater would be the risk associated with the asset. Asset price volatility is very important factor in option pricing process. Economic agents who can predict precisely the volatility of assets in their portfolios, they would be having edge in constructing their portfolios to reap optimal benefits amidst uncertainty or risk of variation in values of the constituent assets in their portfolio. Risk managers and policy makers are equally concerned with persistence and dynamics of volatility of assets values and other economic variables of their interest and focus.

Volatility is an important parameter in the realm of finance, business, and economics. However, measuring and forecasting volatility with desired degree of precision is still more an art than science perhaps.

Note:

1. *Black-Scholes option pricing model provide a price equation of European Call option which can be exercise only after expiry date of the contract unlike American types of option which can be exercised on any day on or before the expiry day.*

UPI Success Story

Shri Sudhakar Kulkarni
Certified financial Planner

UPI (Unified Payment Interface) is real time payment system which has reached in every nook and corner of India. UPI is showing exponential growth both in terms of number transactions and value. As per data sourced from NPCI (National Payments Corporation of India) the total number of UPI transactions last year jumped 91.11% YoY, and the value of UPI transactions saw a 74.83% YoY increase in 2022. Currently about 2800 transactions are taking place every second. Unified Payments Interface (UPI) platform hit a new high of 933 crores in June 2023. The value of these transactions was also at a new record at Rs 14.75 lakh crore. Growing at a steady pace, UPI transactions are likely to reach 1 billion per day by 2026-27, accounting for 90 per cent of the retail digital payments in the country, said a PwC India report. According to the data, India recorded a staggering 89.5 million digital transactions during the review period. This accounted for a remarkable 46 percent share of the world's real-time payments in 2022, surpassing the combined digital payments of the next four top countries.

Hon. Prime Minister has recently said "**I like how you've brought out the rising popularity of UPI. I laud my fellow Indians for embracing digital payments! They've shown remarkable adaptability to tech and innovation"**

After having this preamble let us understand what is UPI?

Unified Payments Interface (UPI) is a payment system that allows users to link more than one bank account in a single smartphone app and make fund transfers without having to provide IFSC code or account number. UPI was initially launched in 2016.

This is a real-time payment system where funds are credited instantly on a real-time basis

The user will only have to use a virtual address, known as a Virtual Payment Address (VPA) to carry out any transaction. UPI has been developed by the National Payments Corporation of India (NPCI) and is regulated by the Reserve Bank of India (RBI). **UPI** is slowly becoming the most preferred form of digital payment. The below-mentioned things are required to transfer funds via UPI:

- A smartphone
- An active bank account
- The mobile number must be active and linked to the bank account
- Internet connection

UPI has now become the most preferred form of digital payment. The UPI interface is compatible with most banks and many digital wallets, and payment applications are embracing UPI. Some of the apps include BHIM, Google Pay, Paytm, PhonePe, MobiKwik AmazonPay and the like.

Participants in UPI:

1. Remitter bank
2. Beneficiary bank
3. NPCI
4. Merchants
5. Bank account holder
6. Payer PSP (Payment Service Provider)
7. Payee PSP (Payment Service Provider)
8. What is so special of UPI?

These features make UPI a very unique platform:

- There is just one singe mobile app to access various bank accounts.
- It facilitates the Immediate transfer of money via mobile devices 24*7.
- The virtual address of the customer for any kind of 'Pull & Push' offers security. The customer does not have to enter information like card number, IFSC code or account number.
- With one click, there is a two-factor Authentication - Aligned with the Regulatory

guidelines, and also provides a seamless single click payment.

- No need to carry the cash in valet, or even going to an ATM.
- You can easily share your bills with friends.
- Over the Counter Payments, Barcode (Scan and Pay) based payments, and Utility Bill Payments can be made.
- You can make merchant payment with a single app or in-app payments.
- You can raise complaints directly from the mobile app.
- You can make donations, disbursements, and collections easily.
- There are no fees and charges applicable to the UPI platform. The UPI programme was launched with the aim to promote digital transactions. The NCPI had earlier marked the transaction charges to be 50 paise per transaction. However, the Government of India had later cancelled these charges to make sure that more and more people started using the platform.
- UPI transactions are secured using UPI PINs which is a 4–6-digit numerical combination.
- All PSU Banks, Leading Pvt. Sector Banks, Leading Coop Banks, Small Finance Banks have joined UPI hence bank customer has choice to link the bank of his choice to UPI App and also select suitable bank for individual transaction.

Considering the overwhelming response UPI 2.0 was launched on 16Th August 2018 with following additional features,

1. **Linking of overdraft account:** In addition to current and savings accounts, customers can link their overdraft account to UPI. Customers will be able to transact instantly and all benefits associated with overdraft account shall be made available to the users. UPI 2.0 will serve as an additional digital channel to access the overdraft account.

2. **One-time mandate:** . UPI 2.0 mandates are created with one-time block functionality for transactions. Customers can pre-authorise a transaction and pay at a later date. Mandates can be created and executed instantly. On the date of actual purchase, the amount will be deducted and received by the merchant/individual user.

3. **Invoice in the inbox:** According to NPCI, this feature is designed for customers to check the invoice sent by merchant prior to making payment. It will help customers to view and verify the credentials and check whether it has come from the right merchant or not. Customers can pay after verifying the amount and other important details mentioned in the invoice.

4. **Signed intent and QR:** This feature is designed for customers to check the authenticity of merchants while scanning QR or quick response code. It notifies the user with information to ascertain whether the merchant is a verified UPI merchant or not. This provides an additional security. Customers will be informed in case the receiver is not secured by way of notifications, said NPCI.

In the recently conducted Global Fintech Festival between 19 to 22 September 2022 following additional facilities are now made available on UPI 2.0

a) **UPI Lite:** Once the feature is set up, the UPI Lite wallet allows a user to do instant transactions of up to Rs 200, instantly without adding UPI PIN or wait for banks to confirm transactions. Notably, users can add a maximum of Rs 2,000 can twice a day to UPI Lite, making the cumulative daily usage up to Rs 4,000.

b) **UPI123**: UPI 123Pay is a facility developed for Non-Smart phone / feature phone users to use the UPI without internet connectivity.

c) **RuPay credit Card on UPI**: You can link your RuPay Credit Card to your UPI like your bank account , this enables you to use your credit card for making payment using UPI app which not possible earlier. With this facility you can use your credit card limit and the payment will be made as per your credit card bill cycle. currently this facility is only for RuPay Credit card only however it is likely that will be extended to Master and Visa shortly.

d) **UPI AutoPay:** With this new facility introduced under UPI 2.0, customers can now enable recurring e-mandate using any UPI application for recurring payments such as mobile bills, electricity bills, EMI payments, entertainment/OTT subscriptions, insurance, mutual funds among others.

e) **Bharat Bill Cross Border Payment System**: The cross-border inward payments to facilitate NRIs to undertake utility, education and other bill payments on behalf of their families in India.

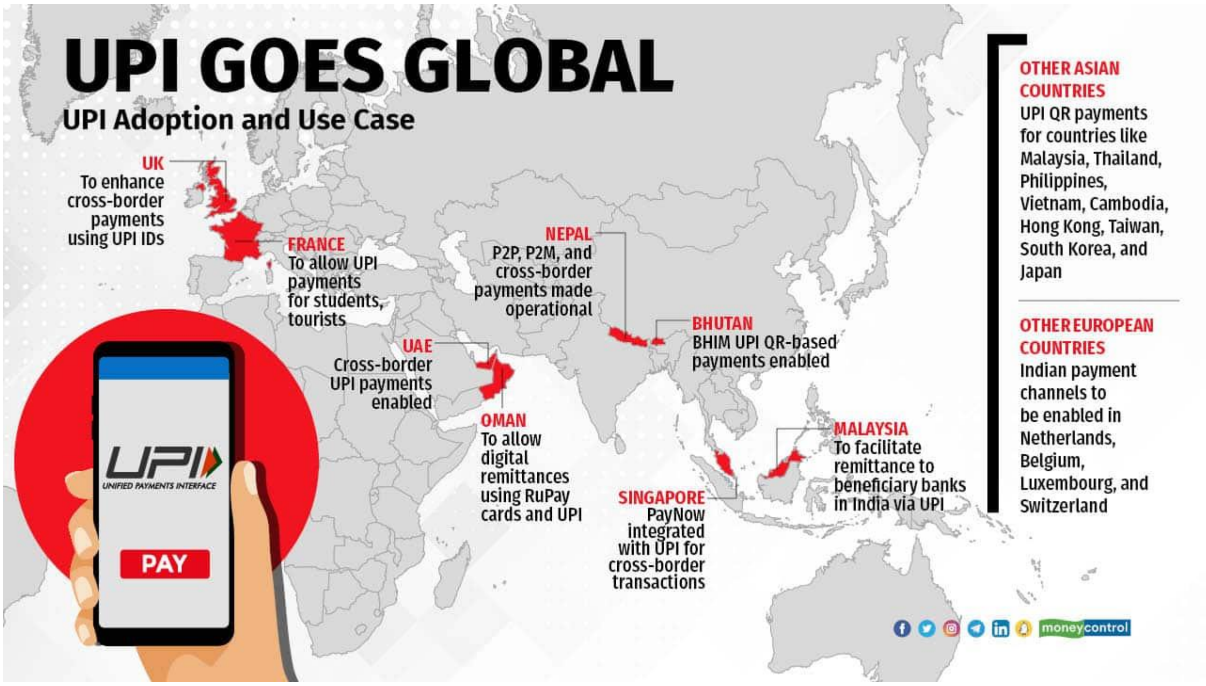
This UPI feature has been made available to travellers from G-20 nations landing at specific international airports.

The Group of Twenty (G-20) comprises 19 countries (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, and United States) and the European Union.

Indians in other countries will soon be able to access the Unified Payments Interface (UPI) using their international mobile numbers.

Non-Resident Indians (NRIs) in 10 countries can access UPI services for transactions without having to depend on their India phone number.

The countries are Singapore, US, Australia, Canada, Hong Kong, Oman, Qatar, Saudi Arabia, UAE and UK.



This clearly shows growing impact of UPI and more and more countries are eager to join UPI and ready to sigh required MOUs.The Indian government has been trying to take its digital payment systems like the Unified Payments Interface (UPI) to other countries to enable seamless cross-border transactions. This is being done to lower the cost of fund transfers and remittance payments.

Earlier on 18th May 2023 Japanese Digital Minister Mr. Kono Taro said that Japan and India are trying to promote digital co-operation and we are serious about joining India's UPI Payment system since it is very convenient system of payment which can increase interoperability between governments. It could be another standard of cross-border payment and hoped that the two nations with UPI economies can work together on digital payments.

During his recent visit to France Hon. PM Narendra Modi said that India's most successful payments system UPI will be used in France. Modi said very soon Indian tourists will be able to make rupee payments using UPI from atop the Eiffel Tower.

Construction of Indian Financial Stress Index and its relationship with the equity market Index

Shri Sambit Roy
Student of National Institute of securities market
Mumbai

The Financial Stress Index (FSI) is a widely used tool that measures the level of financial stress in a country's financial system. The stock market is an important indicator of the overall health of an economy, and its performance is influenced by a variety of factors. This paper aims to compute the Indian Financial Stress Index (INDFSI) and examines the relationship between the INDFSI and the stock market, exploring the ways in which changes in the FSI can impact stock market performance. Our findings suggest that there is a significant negative correlation between the FSI and the stock market, indicating that as the level of financial stress increases, stock market performance tends to decrease. This relationship is influenced by a variety of factors, including economic conditions, investor sentiment, and policy interventions.

Introduction:

The Financial Stress Index (FSI) is a commonly used tool that measures the level of stress in a country's financial system. It is calculated based on a variety of factors, including interest rate spreads, stock market volatility, and credit spreads. The FSI is used by policymakers, investors, and financial institutions to evaluate the risks and opportunities associated with investing in a particular country. The stock market is an important indicator of the overall health of an economy, and its performance is influenced by a variety of factors, including economic conditions, investor sentiment, and policy interventions.

Specifically, we seek to answer the following research questions:

1. Computation of India FSI.
2. What is the relationship between the FSI and the Indian stock market?
3. What are the factors that influence this relationship?
4. What are the factors that influence this relationship?

Literature Review:

There is a significant body of literature that explores the relationship between financial stress and the stock market. Researchers have found that there is a negative correlation between the FSI and stock market performance, indicating that as the level of financial stress increases, stock market performance tends to decrease (Cihak and Demirguc-Kunt, 2010; Berument et al., 2012; Valickova et al., 2015). This negative relationship is attributed to the fact that financial stress can lead to reduced lending, decreased consumption, and lower investment, which can all negatively impact the overall health of the economy and the stock market.

Several studies have also examined the factors that influence the relationship between the FSI and the stock market. Economic conditions, such as inflation, GDP growth, and unemployment, have been found to have a significant impact on this relationship (Cihak and Demirguc-Kunt, 2010; Berument et al., 2012). Other factors, such as investor sentiment and policy interventions, have also been found to influence the relationship between the FSI and the stock market (Valickova et al., 2015; Claessens et al., 2011).

Methodology:

India FSI has been calculated via the following 5 components -

$FSI_{India} = \beta_{Bank\ Nifty} + Stockreturns + Stockvolatility + Debtspreads + EMPI$

are aggregated using correlation weights and principal component analysis.

Monthly Data of the following has been taken and are added using their correlation weights, higher the correlation between the component and the equity market higher the weight assigned to it.

1. **Banking Sector (β)**
   $\beta_{Bank\ Nifty} = cov(r,m) / var(m)$

   Where r and m are the returns to the banking sector stock price index (*BANK NIFTY*) and the overall stock price index, respectively. A higher value indicates a higher stress level in the banking sector.

2. **Equity Market Returns (*Stockreturns*)**
   $\gamma_t = ln(\gamma_t) - ln(\gamma_{t-1})$

   Where γ_t is the equity return in the current period, and $\gamma_{(t-1)}$ is the equity return in the previous period. A lower value indicates a higher stress level in the equity market.

3. **Equity Market Volatility (*Stockvolatility*)**
   India VIX is a measure of volatility used to gauge the market's anticipation of volatility in the Indian stock market over the next 30 days. Also known as the "Fear Index," VIX is derived from the NIFTY 50 Index options prices and calculated by the National Stock Exchange (NSE) using the Black-Scholes model. We have taken the log of the India VIX monthly data.

   This index helps traders and investors make informed decisions by providing a measure of the market's expected volatility. A high India VIX indicates a significant expected volatility, while a low reading suggests relatively low volatility. It should be noted that the India VIX does not indicate the market's direction, and it is solely used to help traders make informed decisions about their trades.

4. **Sovereign debt spreads (*Debtspreads*)**
   Sovereign debt spreads are used to measure sovereign debt stress. Data refer to yield differentials between long-term (10-year) local government bonds and short-term (2-year) T-Bills with available data. A wider spread indicates a higher stress level in the debt market.

5. **Exchange Market Pressure Index (*EMPI*)**
   $EMPI_{i,t} = (\Delta e_{i,t} - \mu_{i,\Delta e})/\sigma_{i,\Delta e} - (\Delta RES_{i,t} - \mu_{i,\Delta RES})/\sigma_{i,\Delta RES}$

   The EMPI captures the depreciation of INR with respect to the United States (US) dollar and the reduction in foreign exchange reserves. A higher value indicates a higher stress level in the foreign exchange market.

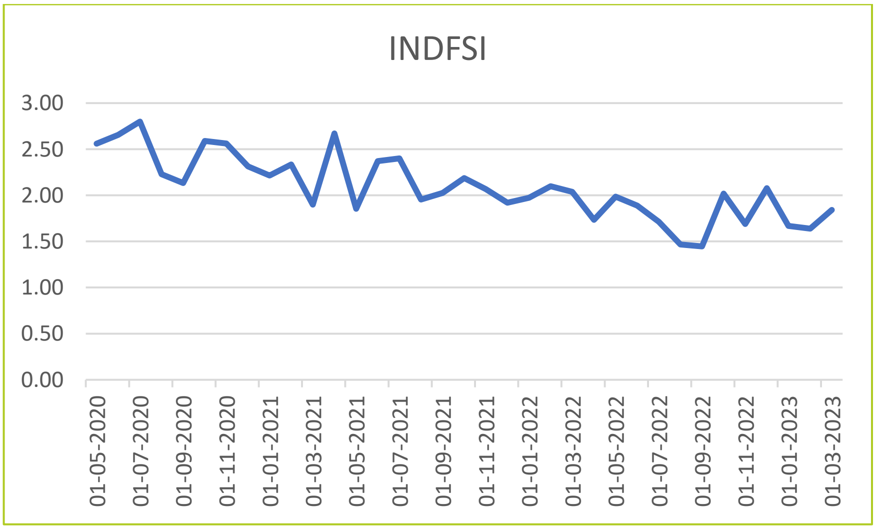
   Δe and ΔRES denote month-on-month percent changes in the foreign exchange rate of the INR per US dollar, and foreign exchange reserves, respectively; while σ and μ are the standard deviation and the mean, respectively.

Regression analysis is done on the INDFSI and NIFTY50 Index to gain insights into the relationships between variables and to make predictions about future outcomes.

Data:

Month	Debt spread	Stock return	β	Volatility	EMPI	INDFSI	Nifty
01-04-2023	0.305	0.0072	2.4870	2.4989			
01-03-2023	0.196	-0.0639	2.4867	2.6590	1.0354	1.84	17359.8
01-02-2023	0.210	0.0587	2.4870	2.6407	-0.4062	1.64	17303.9
01-01-2023	0.361	-0.0317	2.4871	2.7061	-0.5539	1.67	17662.2
01-12-2022	0.380	0.0257	2.4853	2.6528	2.4756	2.08	18105.3
01-11-2022	0.371	-0.0446	2.4855	2.6908	-0.3798	1.69	18758.3
01-10-2022	0.342	-0.0270	2.4871	2.9052	1.5955	2.02	18012.2
01-09-2022	0.466	-0.0003	2.4896	2.9710	-2.8405	1.45	17094.3
01-08-2022	0.728	0.0082	2.4953	2.9205	-2.9931	1.47	17759.3
01-07-2022	0.963	0.0842	2.5036	2.9045	-1.5714	1.71	17158.3
01-06-2022	0.961	-0.0335	2.5128	3.0494	-0.6282	1.89	15780.3

01-05-2022	**1.270**	**0.0308**	**2.5241**	**3.1158**	**-0.5539**	**1.99**	**16584.6**
01-04-2022	**1.817**	**-0.0938**	**2.5380**	**2.9365**	**-2.8357**	**1.73**	**17102.6**
01-03-2022	**1.857**	**0.0013**	**2.5562**	**3.2164**	**-1.3400**	**2.04**	**17464.8**
01-02-2022	**1.789**	**-0.0088**	**2.5720**	**3.0813**	**-0.5743**	**2.10**	**16793.9**
01-01-2022	**1.546**	**-0.0067**	**2.5886**	**2.9075**	**-0.7889**	**1.97**	**17339.8**
01-12-2021	**1.436**	**0.0159**	**2.6162**	**2.8414**	**-0.9619**	**1.92**	**17354.1**
01-11-2021	**1.492**	**-0.0148**	**2.6435**	**2.8245**	**-0.0225**	**2.07**	**16983.2**
01-10-2021	**1.500**	**0.0538**	**2.6693**	**2.8270**	**0.7574**	**2.19**	**17671.7**
01-09-2021	**1.621**	**0.0193**	**2.7037**	**2.7492**	**-0.5167**	**2.03**	**17618.2**
01-08-2021	**1.781**	**-0.0406**	**2.7381**	**2.5808**	**-1.0042**	**1.96**	**17132.2**
01-07-2021	**1.686**	**0.0508**	**2.7631**	**2.5336**	**2.3658**	**2.40**	**15763.0**
01-06-2021	**1.671**	**0.0748**	**2.7870**	**2.7001**	**1.7743**	**2.37**	**15721.5**
01-05-2021	**1.547**	**0.0448**	**2.8089**	**2.9971**	**-2.4161**	**1.85**	**15582.8**
01-04-2021	**1.505**	**-0.2128**	**2.8286**	**3.0779**	**3.3096**	**2.67**	**14631.1**
01-03-2021	**1.494**	**-0.0134**	**2.8474**	**3.0843**	**-2.2825**	**1.90**	**14690.7**
01-02-2021	**1.628**	**-0.0528**	**2.8591**	**3.1520**	**0.4776**	**2.34**	**14529.2**
01-01-2021	**2.009**	**0.1425**	**2.8774**	**3.1078**	**-0.9250**	**2.21**	**13634.6**
01-12-2020	**1.939**	**-0.0639**	**2.9000**	**2.9822**	**0.1039**	**2.31**	**13981.8**
01-11-2020	**1.697**	**-0.0764**	**2.9169**	**3.0549**	**2.0493**	**2.56**	**12969.0**
01-10-2020	**1.600**	**-0.0889**	**2.9351**	**3.0580**	**2.3420**	**2.59**	**11642.4**
01-09-2020	**1.659**	**0.0328**	**2.9606**	**3.0541**	**-1.0848**	**2.13**	**11247.5**
01-08-2020	**1.639**	**-0.0400**	**2.9844**	**3.0537**	**-0.4291**	**2.23**	**11387.5**
01-07-2020	**1.629**	**0.0134**	**3.0078**	**3.2335**	**3.2507**	**2.80**	**11073.5**
01-06-2020	**1.644**	**-0.0324**	**3.0228**	**3.4099**	**1.7968**	**2.65**	**10302.1**
01-05-2020	**1.723**	**0.1297**	**3.0310**	**3.5733**	**0.6367**	**2.56**	**9580.3**
correlation	**0.5176**	**0.0169**	**0.9089**	**0.7060**	**0.3480**	**-0.733**	
weights	**21%**	**1%**	**36%**	**28%**	**14%**		



Regression analysis:

Regression Statistics	
Multiple R	0.734
R Square	0.539
Adjusted R Square	0.525
Standard Error	1761.46
Observations	35

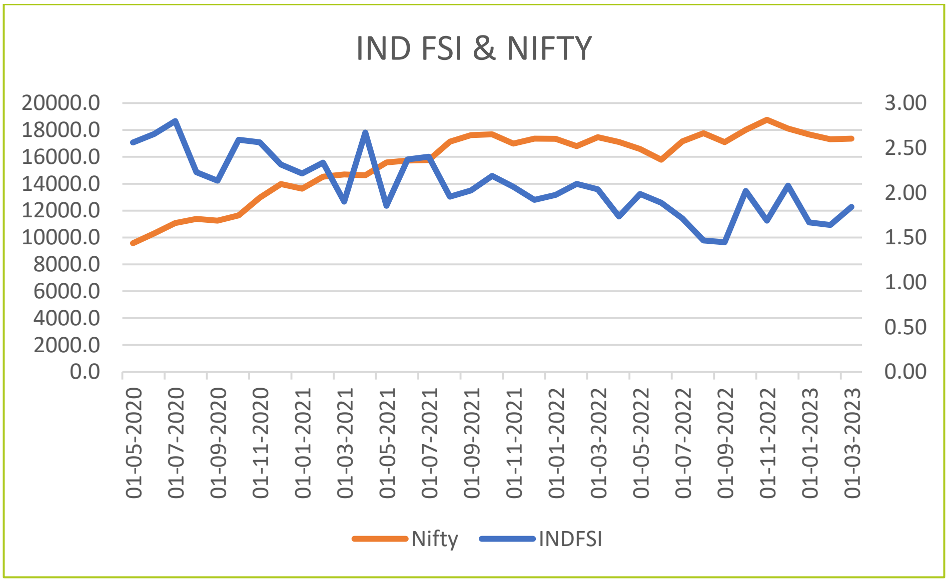
ANOVA

	df	*SS*	*MS*	*F*
Regression	1	119510137	119510137	38.5175816
Residual	33	102390502	3102742	
Total	34	221900639		

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	26831.58	1844.15	14.55	6.4905E-16
X Variable 1	-5413.59	872.28	-6.21	5.2645E-07

Results:

Our analysis found a significant negative correlation between the FSI and the stock market, indicating that as the level of financial stress increases, stock market performance tends to decrease. The correlation coefficient was -0.73, which suggests a moderate to strong negative correlation.



Our regression analysis found that there is a significant effect of the Financial stress Index on the market as a whole. Such an index might be used by analysts and policy makers to better understand and predict the relationship between various economic indicators and the Indian equity market.

Fintech: The Road Ahead

CMA Debaraja Sahu
Practicing Cost Accountant
Hyderabad

Abstract:

India is one of the **fastest growing** large economies. Today, our population is **Young and Adequately Skilled**, the Policy Environment is Supportive of Private Enterprise, our Capital Markets are Capable of Funding Good Business Ideas, the India Stack - the envy of the world. All these factors have allowed many Start-ups to Bloom thereby creating a Robust Indian Start-up Ecosystem. FinTech entities comprise a large part of this Start-up Ecosystem.

India is currently one of the most active Fin Tech Markets in the World. As a result, it has drawn the maximum investments in the sector, along with China. Two important missions led by the Government of India, **One** of Financial Inclusion and the **other** of a Digital India, are driving innovation. Thus, such initiatives have facilitating many Start-ups to grow and become India's Top FinTech Companies.

Although it may be a challenge to turn India into a completely Cashless Economy, given its sheer size of Population and Scattered Geography, Digital Payments have grown Quickly. Thanks to the rapid growth in Smartphone and E-commerce penetration. In a Country where Cash had usually been the go-to Mode of Transactions, a Digital World of Financial Services has found a place to Thrive.

Emergence of Fintech's:

FinTech's are transforming Financial Services across Sectors, including Credit, Payment Systems, Wealth Management, Investment Advice, Insurance, Financial Inclusion, and even Financial Sector Supervision.

New and Innovative Technologies brought by FinTech's are helping in driving down Cost, refocussing Products and Services and improving Customer reach and experience. The ongoing developments, innovations, and emergence of New Technologies will significantly shape the trends in the **Financial World of Tomorrow**.

Digital transformation is inevitable for businesses in India. The fintech industry is playing a pivotal role in enabling this transition by providing innovative solutions that can help businesses drive growth, efficiency and operational agility.

Benefits of Fintech's:

Here are some of the key benefits of fintech for businesses in India.

Improved Customer Experience: Fintech solutions are helping businesses in India to provide enhanced customer experiences through features such as real-time payments, mobile wallet integration, **AI-based chatbots etc**. This is resulting in increased customer satisfaction and loyalty.

Cost Reduction: Fintech solutions are helping businesses to automate their processes and eliminate manual interventions. This is leading to cost savings in terms of time and resources. In addition, fintech companies are also providing competitive pricing models which are further reducing the costs for businesses.

Enhanced Security: Fintech solutions are equipped with advanced security features that protect businesses against data breaches and cyber-attacks. This is ensuring that businesses can operate with peace of mind knowing that their data and operations are safe and secure.

Improved Regulatory Compliance: Fintech solutions are helping businesses to meet the ever-changing regulatory requirements more effectively. This is ensuring that businesses can avoid hefty penalties and maintain a good compliance record.

Regulation and Fintech's:

The Fintech Sector will play a crucial role in achieving objectives of **Greater Financial Inclusion, Cost and Time Efficiency** and so we play the Role of someone who encourages development of this Sector.

≈ **One** way of looking at Fintech Innovation is in terms of **Three** Variables:

- Time.
- Access and
- Data.

Many Innovations, in essence, enable Saving Time, that is, Transactions to be done with Speed, e.g., Fast Payment Systems.

≈ The **Second** Element of innovation is about access, that is they take services to people who are not exposed to Financial Services, promoting inclusion in both senses-equity as well as formalisation of Economic Activity.

≈ The **Third** Element of innovation is Data-using available data to create New Processes and generating further data that can Incentivise further Innovation-think of Cash-flow based lending, or using Tax Data for Credit Assessment.

Increased Penetration of Internet, Processing Speed and Data availability has given a **huge boost** to Financial Innovation in the last decade or so.

The above Three Elements are **driving innovation** in the **Fintech Space**.

A **Fintech** entity providing Characteristic Banking Services like Loans or Payments is Pretty much doing a Banking Activity-it just looks different. Such entities **may not require** a Banking License but they **need to be regulated** similar to how such activities are regulated for a Bank.

In 2021, the Reserve Bank established its own Innovation Hub called the RBIH here in Bengaluru to support creation of an innovation ecosystem through collaboration among financial institutions, the technology industry, and academia.

RBI and the Innovation Hub have commenced pilots in the states of Madhya Pradesh, Tamil Nadu, UP and Maharashtra for fully digitalized "Kisan Credit Card" Loan (For Agriculture Working Capital Loans), which is being disbursed in minutes. Similarly, pilot on fully Digital Dairy Loan based on Milk pouring data has commenced in Gujarat.

RBI has launched the Rupee Central Bank Digital Currency (CBDC) pilot. Currently, 10 Banks are participating in the Wholesale Pilot and 13 Banks are part of the Retail Pilot. Both the Pilots have been going on successfully and we have been able to test various Technical Architecture, design choices and use cases.

As on June 30th, in the Retail Pilot, we had crossed more than **one million users** and more than 2,62,000 Merchants.

The Digital Form of Currency brings along the multiple possibilities which can bring innovation and efficiency such as features of offline, programmability, cross border transactions in Current Systems and may create altogether new frameworks for Financial System to operate in.

It is also important for these innovations to be scalable and interoperable, allowing for expansion and providing advantages to a wider network of participants. While focus on short-term valuation gains may look attractive, creating long term value should be the basic goal. Fintech companies can prioritize several key areas, like

≈ Improving Customer Protection.
≈ Enhancing Cybersecurity and Resilience.
≈ Effectively Managing Financial Integrity and
≈ Robust Data Protection.

It is also essential for every player in the Fintech Industry to devote sufficient attention to:

- Governance.
- Business Conduct.
- Compliance and
- Risk Mitigation Frameworks.

As these aspects are Vital for Long Term Sustainability.

Challenges of FinTech's:

There are certain challenges that are faced by FINTECH in India. Some of them are:

✓ **Lack of Indulgence**: Until now, Consumers are not able to trust these Tech Practices, and they dedicatedly follow Conservative Practices only.

✓ **Adoption**: It's not easy for every Type of Businesses to Adopt Fintech, which may cause harm to their **Productivity**. It is complicated for an economy like that of India's which is dominated by MSMEs. Going Digital for Payments can be Complicated.

✓ **Uncertainty in Regulation**: There is a requirement of full-fledged regulatory frameworks which can contain the Risks. To Mitigate the Potential Risks, there is a need to Formulate Policies.

✓ **Discovery and Distribution of Content**: There are over 600 Fintech Startups in India alone, where not even including the Fintech giants. Creating a reputation among all, to stand out, is a Big Challenge.

✓ **Data Security and Privacy Risk**: DATA is the New Oil. In Fintech there's a Big Data involved, and everything is done Virtually, there's a **lot of risk of data theft**, frauds and other Security Issues.

- ✓ **Lack of Awareness**: More than 70% Population of India live in the Villages and use of these Digital Payment Platforms are done by most of the Urban People. This Sector needs to make its way through Awareness in Rural India

Conclusion:

India's Digital Economy has been witnessing a remarkable growth trajectory over the past few years, transforming the traditional financial landscape and reshaping the way businesses operate. Fintech, or financial technology, is playing a pivotal role in this revolution by creating innovative solutions that are making financial services more accessible, affordable and convenient for millions of Indians. From mobile payments to peer-to-peer lending platforms, fintech is changing how we transact and interact with money in ways that were unimaginable just a decade ago.

FinTech's are the Future, it's not a question of 'If' but 'When'. This is Planned to transform Financial Services Industry the way Smart Phones did to Nokia. India has made a good start and now is moving in the right direction. But how the FinTech revolution is going to change the Habit and Behaviour of Indians.

References:

1. *Regulatory Guidelines on FinTech's*
2. *Data of GoI.*

SNAPSHOTS

Glimpses of the Memorandum of Understanding (MoU) signing ceremony of the Institute of Cost Accountants of India with NSE Academy Limited at the Headquarters of the Institute of Cost Accountants of India (ICMAI) on 18th May 2023.

CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services and Insurance Board (centre) at RBI Headquarters and presenting BFSIB publication to Shri Manoranjan Mishra,CGM, Department of Regulation,RBI (extreme right) along with Shri Vaibhav Chaturvedi,General Manager,RBI on 27th July,2023 (extreme left).

CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services and Insurance Board presenting Aide Memoire on Infrastructure Financing book to CMA P. Vasudevan, Executive Director, RBI on 27th July,2023 (R to L)

CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services and Insurance Board (centre) and CMA Avijit Goswami,Chairman, Members' Facilities Committee (extreme right) presenting a memento to Shri Ashwani Kumar,MD & CEO, UCO Bank (extreme left) on 3rd August,2023.

CMA Chittaranjan Chattopadhyay,Chairman, Banking,Financial Services and Insurance Board (BFSIB) having an intense discussion with Shri Ashwani Kumar,MD & CEO, UCO Bank (R to L) on 3rd August,.2023

CMA Chittaranjan Chattopadhyay, Banking, Financial Services and Insurance Board presenting a plant to Dr.Malayendu Saha, Chairman, West Bengal Joint Entrance Examinations Board (WBJEE) at his Office at Kolkata on 4th August, 2023. (L to R)

CMA Chittaranjan Chattopadhyay, Banking, Financial Services and Insurance Board deliberating in a seminar on National Pension Scheme (NPS) held at the ICC Auditorium, Kolkata on 11th August, 2023.

CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services and Insurance Board, ICMAI (extreme-left) along with CMA Subhashis Chakraborty, Vice Chairman, EIRC-ICMAI (extreme-right) presenting the Institute's publication to Shri Prem Anup Sinha, CGM, SBI LHO, Kolkata (centre) on 16th August, 2023.

CMA ChittaranjanChattopadhyay, Chairman, Banking, Financial Services and Insurance Board ,ICMAI (extreme-right) along with CMA Chaitanya Mohrir,Chairman, WIRC, ICMAI(extreme-left) felicating CMA Dr. Tarun Agarwal,Director,National Insurance Academy (centre) on 18th August,2023 at Pune.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, ICMAI (centre)along with CMA Chaitanya Mohrir, Chairman, WIRC, ICMAI (extreme left) felicitating Shri Sanjay Rudra,Chief Risk Officer, Bank of Maharashtra (extreme right) at Pune on 18th August,2023.

BOOK REVIEW

Attention Practicing CMAs

Book: Banking & Finance Year Book 2023.

Publication of Indian Institute of Banking & Finance, Mumbai.

Publisher: Taxmann Publications Private Limited, New Delhi-110 005. Pages: 236

Price: ₹.425/-.

Reviewed by: Sunil Dasari, Senior Manager, Bank of Maharashtra, Corporate Services

Department, Head Office, Lokmangal, 1501, Shivaji Nagar, **Pune-411 005.**

Indian Banking Sector has undergone a paradigm shift especially in the last decade. As CMA Professionals, one should be well informed about the changes that are taking place both immediate and transitional.

Objective of Releasing the Banking & Finance Year Book 2023 by Indian Institute of Banking & Finance:

With the constant changes in Regulations keeping pace with the Changing Contours of Banking and Financial Sector, it is not only imperative to be aware of the Regulatory Changes but devote time and effort to imbibe the same in the regular Operations by the Professionals. This underlying need has eventually formed the cognitive base for publication of this Compendium – "IIBF Year Book on Banking & Finance".

This Year Book is Comprehensive Repository of Regulatory Changes covering different Verticals of Banks Viz.,

- ✓ Credit.
- ✓ Retail.
- ✓ Digital Banking / Information Technology.
- ✓ Treasury / Risk Management.
- ✓ Compliance.
- ✓ Rural Banking.
- ✓ Legal etc.

In an era where Entrepreneurial Ventures are on the Risk and Start-ups are flourishing, a look at the new names like:

- ✓ Minicorn.
- ✓ Soonicorn.
- ✓ Unicorn.
- ✓ Decacorn.
- ✓ Hectocorn.

The above Terminology / New Names were explained in 'Financial Snippets' Chapter.

The Contents of the Book is a Unique One i.e., Each Chapter Covers important aspects of Banking Sector like:

Chapter 1: Regulatory Changes.
Chapter 2: Legal Changes.
Chapter 3: Economic Changes.
Chapter 4: Other Development in BFSI Sector.
Chapter 5: Important Speeches / Perspectives in Banking & Finance.
Chapter 6: Important Articles – Bank Quest – IIBF Journal.
Chapter 7: Trends in Banking Sector: A Snapshot.
Chapter 8: Enhanced Access and Service Excellence (EASE Reforms)
Chapter 9: Financial Snippets and Glossary of Banking and Finance Terms.

This book has TWO important features i.e.,

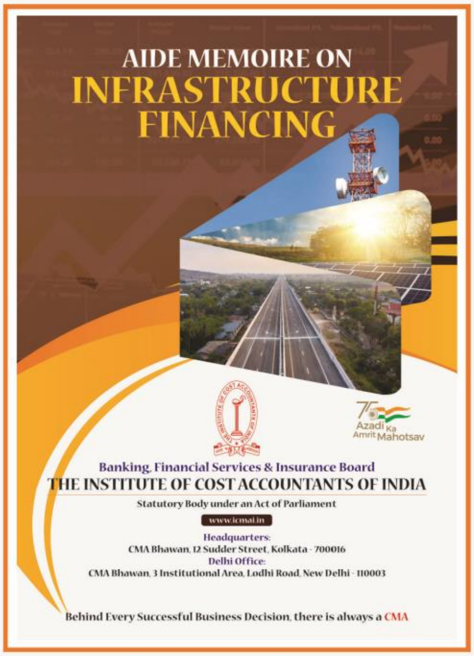
1. Reference / Links of Reserve Bank of India, SEBI and IRDAI (Regulators) wherever applicable.
2. Summary of Legal Changes and its Comments/Rationale also covered.

The Book stands out for its excellent coverage of the subject and would be a useful guide for CMA Professionals. It would also be of interest to CMA Students with its Well Researched and Rich insights on the Subject.

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

BOOK IS NOW AVAILABLE

Members & Students of the Institute of Cost Accountants of India are eligible for 20% discount on the book price

Online purchase can be made as per the following link:

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

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

Banking, Financial Services & Insurance Board
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
Statutory Body under an Act of Parliament
www.icmai.in

Headquarters
CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Delhi Office
CMA Bhawan, 3 Institutional Area, Lodhi Road
New Delhi - 110003

Behind Every Successful Business Decision, there is always a CMA

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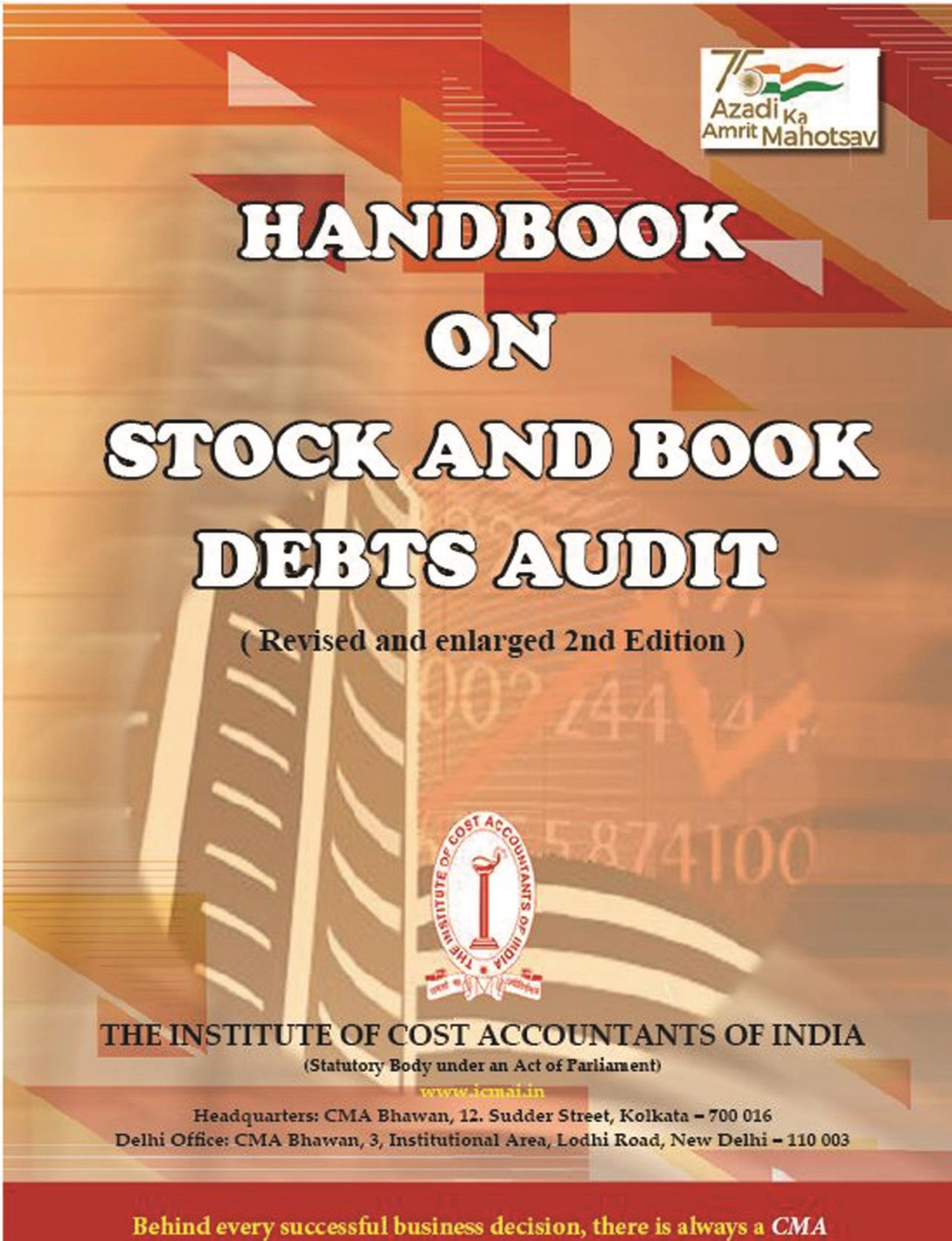

It has already been published on BFSI portal


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ENERGY PRICE RISK.
CHOOSE PRICE HEDGING
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FUTURES
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Natural Gas (1250 MMBtu) | Natural Gas Mini (250 MMBtu)
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(Statutory Body under an Act of Parliament)

The Banking, Financial Services & Insurance Board (BFSIB) of the Institute of Cost Accountants of India (ICMAI) congratulates Bandhan Bank for completing 8 years of building trust.

We wish you all the best for your future.

CMA Chittaranjan Chattopadhyay
Chairman
Banking, Financial Services and Insurance Board

ACTIVITIES OF THE BFSI BOARD

The Banking, Financial Services & Insurance Board of the Institute and the BFSI department continued to chalk out and continue its various activities and initiatives during the period of April to August 2023, a synopsis of which is presented herein under:

A. WEBINARS

The following webinars were conducted during April to June 2023:

- Webinar on "Role of CMAs in Expected Credit Loss Framework for Provisioning of Banks (Series-II)" was conducted on 28th April 2023. The Chief Guest and Speaker of the webinar was CMA (Dr.) P Siva Rama Prasad.
- Webinar on "Role of CMAs in Expected Credit Loss Framework for Provisioning of Banks (Series-III)" was conducted on 19th May, 2023. The Chief Guest and Speaker of the webinar was CMA (Dr.) P Siva Rama Prasad. This webinar concluded the three-part series for the propagation of knowledge among members of the Institute and to increase the awareness of the numerous professional opportunities available.

B. MOU with NSE Academy Limited

The Institute of Cost Accountants of India witnessed an opportune moment on the 18th May, 2023 wherein one MoU was signed with NSE Academy Limited for the purpose of conducting investment management courses, programmes and events for the benefit of the members and students of the Institute. I hope that the upcoming course in the area of Investment Management will be beneficial to all the stakeholders in all walks of their lives. The course curriculum is in the process of finalization from the NSE Academy.

C. Certificate Courses on Banking

It is with great pleasure to announce that the 6th Batch of the Certificate Course on Treasury and International Banking has been successfully concluded on 5th May, 2023 and the 8th Batch of the Certificate Course on Concurrent Audit of Banks have been successfully concluded on 20th May, 2023.The 8th Batch of the Certificate Course on Credit Management of Banks had been successfully concluded on 18th June 2023.

D. Meetings with 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:

- CMA Chittaranjan Chattopadhyay, Chairman,BFSIB visited the RBI Headquarters and presenting BFSIB publication to Shri Manoranjan Mishra, CGM, Department of Regulation, RBI and Shri Vaibhav Chaturvedi,General Manager, RBI on 27th July,2023 and CMA P. Vasudevan, Executive Director, RBI.
- CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and CMA Avijit Goswami, Chairman, Members' Facilities Committee met with Shri Ashwani Kumar,MD & CEO, UCO Bank on 3rd August,2023.
- CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, ICMAI along with CMA Subhashis Chakraborty, Vice Chairman, EIRC-ICMAI visited Shri Prem Anup Sinha, CGM, SBI LHO, Kolkata on 16th August, 2023.
- CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services and Insurance Board, ICMAI along with CMA Chaitanya Mohrir, Chairman, WIRC, ICMAI felicitated CMA Dr. Tarun Agarwal, Director, National Insurance Academy on 18th August,2023 at Pune.
- CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, ICMAI along with CMA Chaitanya Mohrir, Chairman, WIRC, ICMAI visited Shri Sanjay Rudra,Chief Risk Officer, Bank of Maharashtra at Pune on 18th August,2023.

E.Release of the 3rd Annual and 14th Issue of the BFSI Chronicle

The BFSIB has released the 3rd Annual and 14th Issue of the BFSI Chronicle. It included various articles and activities of the BFSIB. The articles are relevant and timely for members and students for their knowledge dissemination. The BFSI Chronicles can be read as per the following link:
https://icmai.in/Banking_Insurance/

F.Representation letters for inclusion of CMAs

The BFSIB continues 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. The BFSI Board is greatly pleased to note the following developments: -

- CMAs are eligible to apply for the post of Officer (Scale-I and II) in Bank of Maharashtra
- CMA are eligible to apply for the posts of Executive Director of SEBI.
- CMAs are eligible to apply for the posts of Manager and Assistant Manager in The Cosmos Cooperative Bank Ltd.

The Institute has represented in the New India Assurance Co. Ltd. for inclusion for the post of Specialist Officer in the Accounts Cadre and we are hopeful that a corrigendum would be released soon for inclusion of CMAs.
The Institute has represented in the State Bank of India for the post of Credit Financial Analyst along with to India Post Payments Bank (IPPB) for inclusion to the post of General Manager (Finance)/ Chief Finance Officer. The BFSIB also represented to The H.P. State Cooperative Bank Ltd. for the post of Support Consultant cum Internal Auditor and we are hopeful that a corrigendum would be released soon for inclusion of CMAs in the above organizations.

G. Representation to IRDAI

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB had represented to Member (Finance & Investment), IRDAI for inclusion of CMAs as a concurrent auditor of investment function and the audit of investment risk management system. We are happy to state that Member (Finance & Investment) has given time on 6th September, 2023 to deliberate at length on the matter.

BROCHURES – COURSES OFFERED BY THE BFSI BOARD

Banking, Financial Services & Insurance Board

BROCHURE

CERTIFICATE COURSE ON CREDIT MANAGEMENT OF BANKS

(For Officials of Private Sector Banks / Local Area Banks)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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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 largest Cost & Management Accounting body in the World, having a large base of about 90,000 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 115 Chapters situated in India, 11 Overseas Centres abroad, 1 Centre of Excellence, 61 CMA Support Centres and 382 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)** for Officials of Private Sector Banks / Local Area Banks.

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 Dibbendu Roy, Additional Director & HoD at bfsi.hod@icmai.in
CMA Dr. Aditi Dasgupta, Joint Director at bfsi@icmai.in

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

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Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata 700016
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi 110003

Behind Every Successful Business Decision, there is always a CMA

Banking, Financial Services & Insurance Board

CERTIFICATE COURSE ON CONCURRENT AUDIT OF BANKS

(For Officials of Regional Rural Banks and Small Finance Banks)

BROCHURE

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"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"** for Officials of Regional Rural Banks and Small Finance 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:

- Income Leakage Audit
- KYC/AML Audit
- Treasury Department Audit
- Staff Accountability Exercise in respect of Failed/NPA Advances at incipient Stage
- To supplement the effort of the Banks in carrying out Internal Audit of the Transactions and other Verifications and Compliance with the Systems and Procedures laid down by the Banks and RBI

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

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

Course Eligibility

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

Course Duration

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

Course Fees

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

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

Examination

Rs. 750 plus GST per attempt.

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Certificate Course on Concurrent Audit of Banks

Detailed Course Content

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

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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 Dibbendu Roy, Additional Director & HoD at bfsi.hod@icmai.in
CMA Dr. Aditi Dasgupta, Joint Director at bfsi@icmai.in

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Banking, Financial Services & Insurance Board

CERTIFICATE COURSE ON TREASURY AND INTERNATIONAL BANKING

BROCHURE

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Certificate Course on Treasury and International Banking

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Course Objectives

Treasury Management is an essential function of a Bank or any Entity dealing with Large volume of funds. With the increased Globalization of Markets, it has become essential to have an in-depth knowledge of the functioning of the Domestic Money and Debt Markets as also the Foreign Exchange Markets for effective management of funds. On account of several Policy measures undertaken by Reserve Bank of India (RBI) and other Regulatory Authorities, different segment of financial markets (Money, Securities, Foreign Exchange and Derivatives Markets) have witnessed significant growth and development in terms of new financial instruments, number of players, volume of business, etc.

In the light of such developments, treasury functions in Banks, FIs and Corporates have grown manifold and therefore have become challenging to manage. Therefore, it has become indispensable for Banks, Financial Institutions and Corporates to make their newly inducted treasury officers well versed with various segment of the financial market, different products and operations, so that they not only serve their clients better, but also manage the risks inherent in Treasury.

Practicing CMAs who dealing with their Clients are in one way or other linked to Finance and Financial related Issues. Hence, they should possess Good knowledge of 'Treasury Operations', so that they can provide Value Addition Services to their Clients. Treasury Operations of Banks and Commercial Organizations are more are less with difference of Regulatory Compliance. Even in small business entities, Treasury Operations helps a lot to minimize the Cost of Borrowings and Maximize the Yield on Investments etc.

In addition to the above, this course is also useful to CMAs who are: -

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

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

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

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

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.

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Syllabus

SECTION - 1

a. Introduction to the Money Market:

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

b. Capital Markets:

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

c. Foreign Exchange Markets:

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

d. External Markets:

- ✓ External Commercial Borrowings
- ✓ GDRs / ADRs

e. Derivatives Markets:

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

SECTION - 2

a. Scope and Function of Treasury Management:

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

b. Domestic Cash Management:

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

c. Cost Centre / Profit Centre:

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

d. Liquidity Management:

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

e. Treasury's Role in International Banking:

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

f. Revaluation Mark to Market and Profit Calculations:

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

SECTION - 3

a. Introduction:

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

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

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ONLINE
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GENERAL INSURANCE

IN ASSOCIATION WITH

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NATIONAL INSURANCE ACADEMY

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https://niapune.org.in

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About NIA

National Insurance Academy (NIA) is a premier institution devoted to equip the insurance industry with the best of talents. Its close association with the Insurance industry provides the 'real life' reference to its training, education, research and consultancy activities.

NIA was established in 1980 jointly by the Ministry of Finance - Government of India, Life Insurance Corporation of India, General Insurance Corporation of India, The New India Assurance Company, National Insurance Company, United India Insurance Company and The Oriental Insurance Company on 16th December, 1980 in Mumbai to be the institute of excellence in learning and research in Insurance, Pension and allied areas. The Academy was shifted to Pune on 4th June, 1990 with the state-of-the-art facilities for learning and research.

Initial years of NIA were dedicated to Management Development Programmes catering to the insurance industry professionals to enhance the management skills and domain expertise. Later, the two year Post Graduate Diploma in Management course was initiated to fulfill the growing demand of skilled professionals in Insurance and Risk Management. The programme offers dual expertise in management and Insurance.

Programme Objectives

The objective is to equip members and students of the Institute in areas of General Insurance for equipping them to understand and comprehend various insurance aspects and have a working knowledge on the various aspects of General Insurance.

Progamme Takeaways

The objective is skill development and knowledge enhancement of members on matters pertaining to insurance

Key Contents

5 modules

Coverage in Fire Insurance, Cargo and Marine, Health, Liability and Miscellaneous 25 hour capsule

Who Can Attend

- Graduates of any discipline
- Students of the ICAI
- Members of the ICAI

Course Fees

Rs. 6000 plus GST of 18 %

Course Timing

Saturdays and Sundays from 11.30 a.m. to

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Certificate Course in General Insurance in association with National Insurance Academy

NATIONAL INSURANCE ACADEMY

NATIONAL INSURANCE ACADEMY, PUNE

DETAILS OF INSURANCE TOPICS COVERED IN THE SYLLABUS

MODULE - I

FUNDAMENTALS OF INSURANCE

- ✓ BUILDING BLOCKS OF INSURANCE
- ✓ LEGAL ASPECTS OF INSURANCE
- ✓ PRINCIPLES OF INSURANCE
- ✓ FUNDAMENTALS OF LIFE INSURANCE
- ✓ FUNDAMENTALS OF GENERAL INSURANCE
- ✓ ACTUARIAL ASPECTS OF INSURANCE

MODULE - III

LIFE INSURANCE

- ✓ LIFE INSURANCE UNDERWRITING
- ✓ LIFE INSURANCE PRODUCTS
- ✓ ANNUITIES AND PENSIONS
- ✓ ENTERPRISE RISK MANAGEMENT
- ✓ LIFE INSURANCE POLICY SERVICING
- ✓ LIFE INSURANCE CLAIMS

MODULE - V

MARINE INSURANCE ACT

- ✓ CARGO CLAUSES
- ✓ TYPES OF CARGO
- ✓ HULL CLAUSES
- ✓ MARINE UNDERWRITING
- ✓ MARINE CLAIMS

MODULE - VII

HEALTH, LIABILITY AND MISCELLANEOUS INSURANCE

- ✓ HEALTH POLICY COVERAGE
- ✓ HEALTH REGULATIONS
- ✓ BASICS OF LIABILITY
- ✓ LIABILITY INSURANCE PRODUCTS
- ✓ BURGLARY AND PERSONAL ACCIDENT
- ✓ MONEY IN TRANSIT AND OTHER MISCELLANEOUS INSURANCE

MODULE - IX

INSURANCE ACCOUNTS

- ✓ BASICS OF ACCOUNTING
- ✓ LIFE INSURANCE ACCOUNTS
- ✓ GENERAL INSURANCE ACCOUNTS
- ✓ INVESTMENTS
- ✓ SOLVENCY REGULATIONS
- ✓ REGULATIONS FOR INVESTMENTS AND FINANCE

MODULE - II

LEGAL FRAMEWORK OF INSURANCE

- ✓ INSURANCE ACT
- ✓ IRDAI - DUTIES, POWERS AND ROLE
- ✓ REGULATIONS FOR LIFE INSURANCE
- ✓ REGULATIONS FOR GENERAL INSURANCE
- ✓ REGULATIONS FOR INTERMEDIARIES
- ✓ REGULATIONS FOR INVESTMENTS AND FINANCE

MODULE - IV

FIRE INSURANCE

- ✓ COVERAGE
- ✓ CONDITIONS AND EXCLUSIONS
- ✓ SPECIAL COVERS AND CLAUSES
- ✓ FIRE UNDERWRITING
- ✓ BUSINESS INTERRUPTION
- ✓ FIRE CLAIMS

MODULE - VI

MOTOR INSURANCE

- ✓ COVERAGE OF MOTOR LIABILITY
- ✓ PACKAGE POLICIES
- ✓ MOTOR UNDERWRITING
- ✓ MOTOR OWN DAMAGE CLAIMS
- ✓ MOTOR THIRD PARTY CLAIMS

MODULE - VIII

CLAIMS AND REINSURANCE

- ✓ CLAIMS PROCESS
- ✓ BASICS OF REINSURANCE

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NATIONAL INSURANCE ACADEMY

NATIONAL INSURANCE ACADEMY, PUNE

PROFESSIONAL CERTIFICATION IN GENERAL INSURANCE (LEVEL-1)

CURRICULUM FOR THE COURSE (TOTAL DURATION IS 25 HOURS)

MODULE - I

- **FUNDAMENTALS OF INSURANCE**
  - ✓ BUILDING BLOCKS OF INSURANCE
  - ✓ LEGAL ASPECTS OF INSURANCE
  - ✓ PRINCIPLES OF INSURANCE
  - ✓ FUNDAMENTALS OF GENERAL INSURANCE
  - ✓ SIGNIFICANCE OF IRDAI REGULATIONS IN INSURANCE BUSINESS

MODULE - II

- **FIRE INSURANCE**
  - ✓ COVERAGE
  - ✓ CONDITIONS AND EXCLUSIONS
  - ✓ SPECIAL COVERS AND CLAUSES
  - ✓ BUSINESS INTERRUPTION
  - ✓ FIRE CLAIMS AND ROLE OF SURVEYORS IN LOSS ASSESSMENT

MODULE - III

- **MARINE CARGO INSURANCE**
  - ✓ MARINE INSURANCE ACT
  - ✓ CARGO CLAUSES
  - ✓ TYPES OF CARGO
  - ✓ MARINE UNDERWRITING
  - ✓ MARINE CLAIMS

MODULE - IV

- **MOTOR INSURANCE**
  - ✓ COVERAGE OF MOTOR LIABILITY
  - ✓ PACKAGE POLICIES
  - ✓ MOTOR UNDERWRITING
  - ✓ MOTOR OWN DAMAGE CLAIMS
  - ✓ MOTOR THIRD PARTY CLAIMS

MODULE - V

- **HEALTH, LIABILITY AND MISCELLANEOUS INSURANCE**
  - ✓ HEALTH POLICY COVERAGE & UNDERWRITING
  - ✓ HEALTH REGULATIONS
  - ✓ BASICS OF LIABILITY
  - ✓ LIABILITY INSURANCE PRODUCTS
  - ✓ BURGLARY AND PERSONAL ACCIDENT
  - ✓ CLAIMS INTIMATION AND NECESSARY FOLLOW UP

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BROCHURE

For more details

Course Coordinator of ICMAI

CMA Dibbendu Roy - Additional Director
E-mail: *bfsi@icmai.in*
Mobile: 96434-43047 / 83686-93781

Course Coordinator of NIA

Dr. Steward Doss - Faculty, Marketing
Email: gdoss@niapune.org.in
Phone No.: 9765203257

Also, the program will be on Google Meet Platform and software is accessible on Windows Operating System of 7 and above. Good internet connectivity is a must for participants and connection must be through desktop/laptop.

Banking, Financial Services & Insurance Board
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
Statutory Body under an Act of Parliament
www.icmai.in

Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003

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FINANCIAL SNIPPETS

- Consumer price inflation projected at 5.2% for FY24.
- The Reserve Bank of India (RBI) issued a framework for acceptance of green deposits on 11 April 2023.
- The Monetary Policy Committee of the RBI, which had met from 6^{th} April 2023 to 8^{th} April 2023 unanimously voted to pause the continual rate hikes. The RBI retained the repo rate at 6.5%.
- Central government's gross tax revenues (GTR) grew by 12% during April-February FY23 with growth in direct taxes at 16.2% and that indirect taxes at 8.1%.
- High frequency indicators signal the ongoing recovery in the Indian economy.
- WPI inflation turned negative for the first time in 33 months at (-) 0.9% in April 2023.
- Due to the strong growth in private sector activity, the composite PMI Output Index increased from 58.4 in March 2023 to 61.6 in April 2023.
- Growth in broad money stock (M3) increased to 9.5% in April 2023 from 9% in March 2023.
- Growth in M1 increased to 7.7% in April 2023 from 6.8% in March 2023.
- As per the Asian Development Bank, India's growth at 6.4% in 2023 (FY24) and 6.7% in 2024 (FY25) is expected to substantially outperform growth in developing Asia.
- As an amendment to the Budget, all income from debt Mutual Funds will be taxed as short term capital gains.
- In a move to safeguard client money, the Securities and Exchange Board of India (SEBI) has asked brokers to stop creating bank guarantees using client funds.
- GST revenues at INR 187,000 crore in April 2023 are the highest ever since GST implementation.
- Credit inflow to personal loans recorded a 19.4% increase in April 2023 vis-vis April 2022.
- On 3 May 2023, the Securities and Exchange Board of India (SEBI) introduced the Legal Entity Identifier (LEI) system for issuers that have listed or are planning to list non-convertible securities, securitised debt instruments and security receipts.
- Indian companies continue to post robust numbers, fuelling the optimism in the markets.
- All parts of the services sector, construction and real estate continued to do well, as evidenced by the increased cement and steel sales, IIP numbers for construction and growth in banking credit to the services sector.
- Tractor registrations have recorded strong growth in recent months with a 35% increase in May 2023 over May 2022.
- Capital and infrastructure goods have shown strong growth reflecting strength in construction activity.
- Commercial and passenger vehicle registrations noted 11% and 15% growth respectively
- May 2023 over May 2022.
- All categories of personal loan show robustness, indicating a steady rise in domestic consumer demand. This suggests consumer confidence in the future of the Indian economy.
- Indian Government has proposed a draft Carbon Credit Trading Scheme (CCTS) to establish a framework for Indian Carbon Markets (ICM).
- On 12 May 2023, RBI issued an advisory to state that publication of the remaining LIBOR settings will cease permanently post 30 June 2023.
- For FY 2023-24, premium will remain the same across all the categories for third-party motor vehicle insurance.
- FIIs pumped in about Rs.20000 crores in May 2023 in the cash segment.
- In June 2023, both PMI manufacturing and services remained at high levels of 57.8 and 58.5, respectively.
- Led by higher growth in manufacturing and mining output, IIP growth increased to 5.2% in May 2023 from 4.5% in April 2023.
- Net FPI inflows surged to US$5.5 billion in May 2023.
- PMI Services witnessed an uptick and expanded to 60.6 in FY23 (April-June).
- CPI inflation rose in June 2023 to 4.81% from 4.31% in May 2023, with an increase in food inflation.
- In FY23, the combined index of eight core industries stood at 154.5 during April-June 2023.
- 25.8 crore e-way bills were raised during April-June in FY24.
- GST collections of Rs. 1.61 lakh crore has been noted in June 2023.
- Bank credit stood at Rs. 143.92 trillion as of June 30, 2023.
- Cargo traffic handled at major ports stood at 196.709 Million Tonnes (MT) during April-June 2023.
- Railway freight traffic growth stood at 134 MT from May 2023.
- Merchandise exports during June 2023 stood at US$ 32.97 billion.
- Merchandise exports during June 2023 stood at US$ 32.97 billion.
- Credit to non-food industries stood at Rs. 143.64 trillion as of June 30, 2023.
- The recent spike in the prices of fruits, vegetables, and pulses and products owing to weather-related disruptions has led to a sequential increase in food inflation for the month of June 2023.
- Startups accounted for 44% of all private equity volumes in July with 29 deals totalling US$ 133 million.
- Rs. 68,636 crore worth of loans have been disbursed to MSMEs till August 1.
- The number of Jan Dhan accounts have crossed 50 crore as of August 9, 2023.
- UPI transactions for August crosses 10-billion mark for the first time

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Contact Details

CMA Chittaranjan Chattopadhyay, Chairman
Banking, Financial Services & Insurance Board - 82404 78286

CMA Arup Sankar Bagchi, Sr. Director & Secretary
Banking, Financial Services & Insurance Board - 9831117222

CMA Dibbendu Roy, Additional Director & HoD,
Banking, Financial Services & Insurance Board - 96434 43047

CMA (Dr.) Aditi Dasgupta, Joint Director - 9831004666

E-mail: bfsi@icmai.in, bfsi.hod@icmai.in

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www.icmai.in

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www.icmai.in

Headquarters
CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Ph: +91-33-2252 1031/34/35/1602/1492

Delhi Office
CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003
Ph: +91-11-24666100

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