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BANKING, FINANCIAL SERVICES AND INSURANCE (BFSI)

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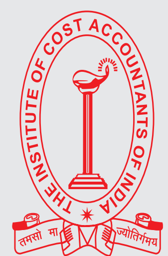

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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

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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."

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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.

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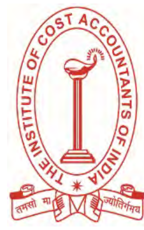

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MESSAGE FROM THE CHAIRMAN

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

Greetings and salutations!!

"Success isn't always about greatness. It's about consistency. Consistent hard work leads to success. Greatness will come " —Dwayne Johnson

India has the strongest growth rate of 8.4 % in the 3rd quarter for the year 2023-24 and we believe that the economy is in right shape with better collections, strong domestic demand, moderate inflation and easing of tension in the global environment. We believe it is a matter of time when we would grow as the 3rd largest economy of the world. We are in the process of releasing the Aide Memoire on Infrastructure Financing (Revised and Enlarged) 2nd Edition from the auspicious hand of a celebrity. We have various other publications in the pipeline namely Net Zero Emissions Audit for financing by Banks and Central Bank Digital Currency. Such publications would be released soon for the benefit of the members.

The BFSIB has conducted successful the Retirement Solutions Month in January, 2024 where Dr. Deepak Mohanty, Chairperson, PFRDA had graced the online session. Similarly, in the month of February, 2024 we observed the Insurance Month where doyens of the insurance sector graced the occasion including CMA G.Srinivasan, Former Chairman, The New India Assurance Co. Ltd. graced the occasion along with CMA Dr.Tarun Agarwal, Director, National Insurance Academy. The Chief Guest for the event was Smt. Rajeshwari Singh Muni, Chairperson, National Insurance Co. Ltd. The event was also graced by CMA S.P.Padhi, Former EIRC Chairman and Insurance Consultant and CMA Dr. Ashok Kumar Jain, BFSI Board Member.

The BFSI in association with NSE Academy has started the Investment Management course in three levels. We are happy to state that the 1st level has been successfully conducted and now the process of admission for the level-2 and 3 are being conducted.

The BFSI Board, ICMAI has successfully conducted 9 batches of Certificate Course on Concurrent Audit of Banks and Certificate Course on Credit Management of Banks respectively. We have conducted 7th batches of the course on Treasury and International Banking.

We are also representing strongly to the regulators including SEBI, RBI and IRDAI for inclusion of CMAs and also providing our inputs in any Exposure Drafts uploaded by them for any policy matters.

We have also done many physical events for professional growth and development and will continue to do in the coming days for updating our members.

We are proud to state that we have successfully published our 16th volume of the BFSI Chronicle as a quarterly issue for the benefit to the BFSI sector, members and students of our Institute.

With warm regards,

CMA Chittaranjan Chattopadhyay

FROM THE DESK OF THE DEPARTMENT

The Indian Economy in it's latest figures shows a robust growth of 8.4 percent in the October to December, 2023 compared to the growth of 7.6 percent in the previous quarter. The third quarter earnings of India Inc. is recording a resilient show despite global headwinds and rising interest rates and domestic high inflation. With better GST collections and enhanced business confidence of high expectations in corporate earnings results in the FY 2023-24 the economic outlook for the year in very positive. The ensuing elections in 2024 will pave how the stock market will perform as presently the Sensex is at an all-time high of 74,000.

The Interim budget for FY25 and the monetary policy announcement from the Reserve Bank of India, could provide some clue on future trajectory of fiscal and monetary policy which play a key role in shaping the future trajectory of the economy. Continuing its deep focus on infrastructure development, the Interim Budget 2024 has proposed to raise capital expenditure—for the fourth consecutive year—by 11.1% to Rs. 11.11 lakh crore, which is 3.4% of the GDP. Increase in capex could have favourable impact on employment and also aid several ancillary industries supporting to the infrastructure sector. The proposals in the interim budget focused to provide more opportunities for the lower end of the pyramid, increased infra spending for development, measures for reaching net zero by 2070 and on fiscal consolidation.

The Gross Borrowing for FY 25 is estimated to be Rs. 14.13 trillion vis-à-vis Rs. 15.4 trillion for FY 24. The Fiscal deficit for FY 24 is expected to be 5.8% of the GDP as against the budget estimate of 5.9 per cent and the fiscal deficit for FY25 is projected to be 5.1% of GDP. The budget has also highlighted the achievements of the social schemes has helped to provide relief to the various sectors. Banks have a pro-active role in enabling the implementation of such schemes.

In the case of banking sector, public sector banks continued to post a decent set of numbers in the December quarter on the back of higher interest income which has reduced the credit costs and has enhanced asset quality. The combined profit of 12 public sector banks (PSBs) in Q3 FY24 increased by 3.84% to Rs. 30,297 crore as compared to Rs. 29,175 crore recorded in the same period last year. The listed private sector banks reported a 23.8 percent growth in net profit at Rs 43,543 crore in the third quarter of Financial Year 2023-24 due to high credit offtake and fall in costs for the financial sector Q3 results which was quite impressive.

In the monetary policy front, considering the impressive economic growth and lower inflation, the statusquo on the repo rate and policy stance from the RBI was on the expected lines. On the growth front, RBI has projected 7.0 per cent GDP growth for FY 25. RBI has retained its inflation estimate at 5.4 per cent for FY 24. For the next financial year, RBI projection is further reduced to 4.5 per cent which is trending closer to the lower band of the target corridor. It also signals that rate reduction in signal rate is possible only if the inflation touches 4 per cent and below. In the regulatory front, extending the requirement of Key Fact Statement (KFS) for all retail and MSME loans could help the customers immensely as they would know the total cost of loans and could avail the loan based on information. The Introduction of Principle-Based framework for Authentication of Digital payment transactions is expected to enhance the security of transactions. In sum, RBI has adopted a well-balanced policy approach in this policy.

Digitalization of Banks and formation of neo banking has enabled Banking through technology a possible concept which has also enhanced the scope of financial inclusion. It has enabled economic empowerment for the common denominator through the mechanism of growth and development of the people having low per capita income. The banking sector is going through innovation, inclusion and growth. However, with RBI tightening it's grip on Paytm Bank and other Fintech Companies like IIFL and JM Financial products augurs well that the regulator is having a sharp bird's eye on any deviation caused by these Institutions. But as it is said that the "Consumers Beware" and all individuals should be very careful about the antecedents of the organizations so that such discrepancies can be tracked early.

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"The New Dawn of Banking in India: The Rise and Impact of Neo-Banking Models"

CMA Soumen Dutta
Corporate Professional and
Certified Fintech and Blockchain Specialist

"If banks cannot truly be customer intimate, they are doomed to be just dumb commodities, acting behind the scenes, like utilities." – ***JP Nicols, serial fintech entrepreneur***

Abstract: India is experiencing a notable transformation in its financial sector as neo-banking emerges. These technologically advanced banking platforms provide flexible and customer-focused services that challenge conventional banking models. Neobanks utilise data analytics and artificial intelligence to facilitate effortless transactions, tailor-made financial solutions, and all-encompassing banking experiences. Their dominance exemplifies a wider fintech revolution, which holds the potential to alter financial accessibility and efficiency. This article examines the progression of neobanking in India, analysing its many business strategies, regulatory landscape, and technological foundations. This text offers an understanding of the disruptive influence of fintech companies on traditional banks and explores potential future developments, indicating a significant shift in the Indian banking industry.

Introduction:

The banking sector in India, which has long been characterised by its conservative nature and reluctance to embrace change, is currently experiencing a profound and revolutionary shift. The emergence of "Neo Banking," a digitally focused banking approach, is driving this transformation, challenging the traditional standards of established financial systems. Neo-banking signifies a transition from traditional physical banking establishments to a scenario where the internet and smartphones take precedence as the main points of contact for customers.

Definition:

The term "neo-banking" might be quite elusive. Neobanks are financial technology companies that offer digital and mobile-based financial solutions. They typically do not have physical branches and instead rely on technology to provide innovative services to a customer base that is knowledgeable about technology. What distinguishes them is not only the lack of physical space but also their ability to quickly handle tasks, provide customised user experiences, and frequently, a more comprehensive approach to serving individuals who do not have access to traditional banking services or have limited access to them. In India, a country experiencing a rapid increase in digital usage, neo-banking is designed to cater to the digitally savvy population and the increasing need for fast, secure, and convenient financial transactions.

The Emergence of Technology in Financial Services:

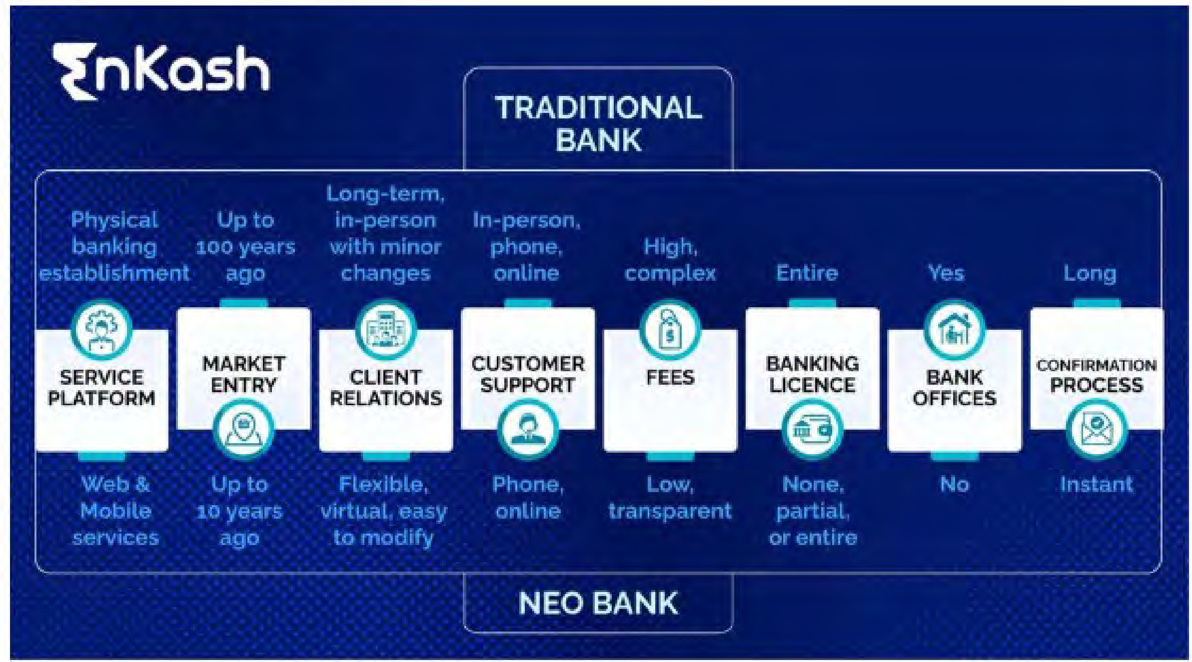
The global financial services sector has witnessed a significant surge in the adoption of technology, and India has followed suit. India, with its significant unbanked population gaining access to smartphones and the internet, presents a favourable environment for the growth and success of Neobanks. The rise of technologies like artificial intelligence (AI), machine learning (ML), blockchain, and big data analytics has played a crucial role in providing valuable insights into customer behaviour and facilitating the development of highly personalised financial solutions. The triumph of India's Unified Payments Interface (UPI) system has additionally emphasised the population's preparedness to adopt digital financial solutions.

The emergence and relevance of neo-banking in India:

Neo-banking in India has taken advantage of the digital revolution driven by government programmes such as "Digital India." Due to the deregulation of financial services and the implementation of progressive legislation, digital banks have thrived in a favourable climate for their expansion. Additionally, the traditional banking sector's challenges in keeping up with technological advancements and providing positive customer experiences increase the significance of their relevance.

Summary of Key Points:

This article aims to explore the complexities of neobanking in India, starting with a detailed examination of its development and the business model that these modern banks represent. We will examine the regulatory framework that controls them, as well as the technological foundation on which they are built. Gaining knowledge about the primary participants in the Indian neo-banking industry will offer valuable insights into the competitive environment. An analysis will be conducted to assess the feasibility and long-term viability of neobanking by examining user experiences, problems, and constraints. In addition, we will thoroughly examine the influence of traditional banking, the response of established banks, and the possible formation of enduring collaborations. Finally, we will analyse the future, studying patterns and making predictions that could shape the direction of neo-banking in India. Ultimately, we will evaluate how these changes may impact the overall Indian financial industry. The piece tries to offer a comprehensive narrative on the emerging banking phenomenon in India. It progressively builds upon each segment to create a composite picture that informs, engages, and stimulates thought about the future of banking in the country.



Traditional Bank vs NEO Bank

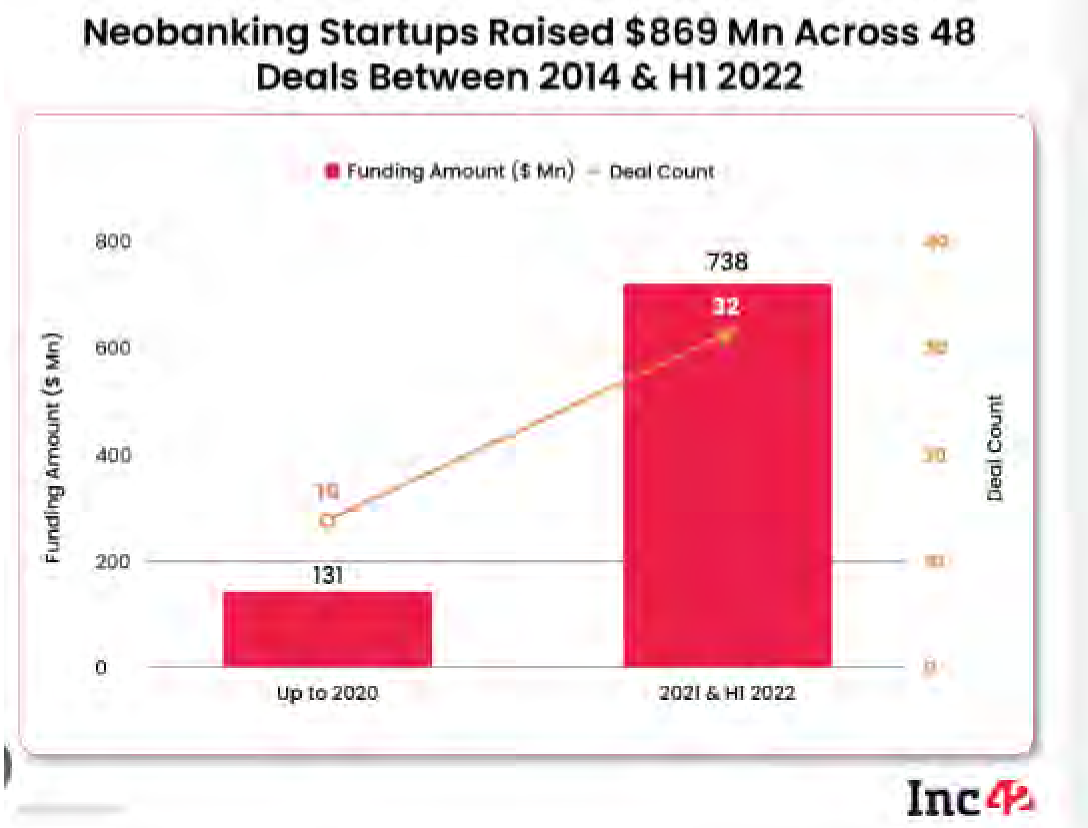
Source: encash

The progression of Neo Banking:

The banking history in India is extensive and complex, originating from the Vedic era, when loan documents known as "Rnapatra" or "Rnapanna" were prevalent. Over the years, trade demands, colonial influences, socioeconomic changes, and more recently, technological advancements have all shaped banking. Over time, the financial system in India assimilated novel characteristics and capabilities with each era. The deregulation of the Indian economy in the 1990s facilitated the emergence of private and multinational banks, introducing a novel approach to consumer banking.

The emergence of neo-banks and the impact of the technological revolution:

The Indian banking sector has had significant importance and impact over the past two decades. Post-millennium, the protected Internet protocols and the dot-com rush led to the first phase of digital banking—the era of online banking. Indian consumers gradually and confidently began adopting the convenience of internet banking services. The emergence of the smartphone revolution in the late 2000s had a profound impact on consumer banking habits. Mobile banking experienced a rapid increase in popularity by the mid-2010s, leading to its broad adoption and paving the way for the emergence of a new type of bank. Neobanks emerged as a result of the combination of customer-focused innovation and financial technology. They embody the technological revolution in banking, based on the concepts of adaptability, effectiveness, and exclusive use of digital technology, utilising the most recent advancements in cloud computing, artificial intelligence, and analytics. These digital platforms bypass physical branches and directly engage customers through mobile applications and websites, resulting in a significant cost reduction and enabling them to offer consumers lower fees and greater interest rates.



Important Turning Points in India's Neobanking History:

Several significant turning points can be linked to the emergence of neo-banking in India:

- **Launch of the Unified Payments Interface (UPI) in 2016:** The National Payments Corporation of India (NPCI) changed the game with the introduction of UPI, a real-time payment system that expedited mobile transaction convenience and security and created the ideal environment for the growth of neobanks.
- **Demonetization (2016):** When the Indian government decided to remove large denomination notes from circulation, a sizable portion of the populace began using digital payments, which significantly boosted mobile banking and cashless transactions.
- **Fintech Startup Boom:** With an emphasis on financial services advances, a plethora of fintech businesses arose during the ensuing years. These served as the foundation for full-stack neobanks, which were able to perform a variety of services that were previously exclusive to conventional banks.

- **First Neo Bank Ventures:** Around 2017–2018, companies like Niyo and Open, as well as later, more recent arrivals like Jupiter and Fi, began to take shape as the country's first neo banking platforms, offering advanced banking services to tech-savvy clients.
- **Partnerships with Traditional Banks:** To take advantage of neobanking platforms' technological capability, traditional banks started forming partnerships with them after realising the potential threat and opportunity. Neobanks are able to provide FDIC-insured deposits and other services without a banking licence because of these kinds of agreements.
- **2019 saw the introduction of the Reserve Bank of India's "regulatory sandbox,"** which permitted fintech companies to test their products under laxer regulations. This was viewed as a positive step for neo-financial systems and encouraged innovation.
- **COVID-19 Pandemic (2020):** As a result of the need for contactless transactions, there was a sharp increase in the use of digital financial services during the pandemic. Thus, the neobanking industry had an unparalleled surge in customer adoption rates, solidifying its market position.

These achievements show the evolution of neobanking in India, from a cutting-edge idea to a competitive force in the financial services industry. The process of change is still ongoing, stretching the bounds of conventional banking and providing a window into the exciting world of digital finance.

Source: business bar

Neo Banking Business Model:

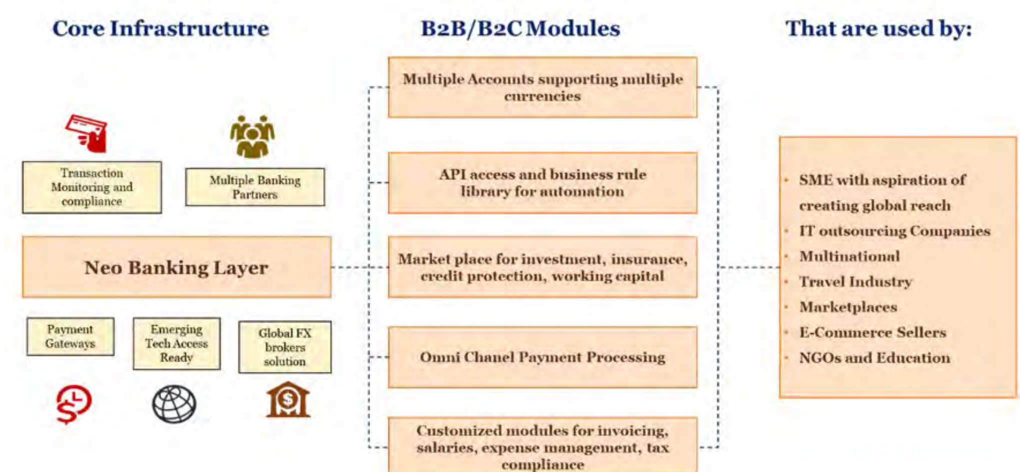
Neobank's business strategy diverges significantly from traditional banking paradigms, mainly due to its emphasis on digital-first strategies. Neobanks, in contrast to traditional banks, conduct their operations only through online platforms, without the need for physical branches or human personnel. This allows them to provide consumers with increased efficiency at a reduced cost.

An Explanation of the Model:

Neobanks leverage cutting-edge digital banking technology to provide a diverse range of banking services, such as savings and checking accounts, payments and international money transfers, and personal finance management. Their technology stack commonly includes cloud computing, sophisticated data analytics, machine learning algorithms, and strong cybersecurity measures, all aimed at providing a smooth and user-friendly experience. Neobanks prioritise a customer-centric strategy as a fundamental aspect of their business model. Through the utilisation of data, they are able to provide customised financial services that are specifically designed to align with an individual's spending patterns, savings objectives, and investing inclinations. Utilising data to personalise experiences enhances consumer engagement and promotes brand loyalty, which in turn benefits customer retention and upsell tactics.

Comparative analysis of traditional banking models:

Unlike neobanks, traditional banking models are burdened with legacy systems and processes, which can hinder rapid adaptation to evolving consumer expectations and technological improvements. The cost structure of conventional banks is considerably higher as a result of the presence of physical branches and the need for a larger workforce, leading to increased fees for clients. In contrast, neobanks reduce operating expenses by reducing the requirement for physical infrastructure and enhancing workforce efficiency through automation and artificial intelligence. Neo banks are able to provide cheaper rates, waive fees for specific services, and give greater interest rates on savings accounts due to their operational efficiency. These appealing offerings make them desirable to the contemporary customer.



Source: PWC

Methods for generating revenue:

Neobanks employ diverse monetization tactics to earn income. Several financial institutions provide premium accounts by subscription, offering advantages such as enhanced interest rates, reduced loan rates, complimentary ATM withdrawals, and additional value-added services. In addition, they utilise interchange fees generated from card transactions and establish collaborations with other financial service providers. Several neobanks have entered the lending sector, providing services such as personal loans, credit lines, and overdraft facilities. By utilising advanced algorithms to evaluate the creditworthiness of consumers, loans may be disbursed rapidly and effectively. In addition, they occasionally participate in marketplace banking, wherein they provide third-party products on their platform in exchange for a fee. Neobanks can generate additional revenue through cross-selling. By including a range of financial goods, including insurance and investment alternatives, within their platform, they create additional opportunities for generating cash through commissions. The Neo Banking app offers a wide range of products and services, effectively functioning as a financial

supermarket. Users can conveniently manage all aspects of their financial affairs in one place.

Offered Benefit:

The value proposition of neobanks is based on the combination of ease, agility, and personalisation. Customers can anticipate an interface that is easy to use, a banking experience that is direct and uncomplicated, and frequently, more intelligent observations about their financial behaviours. In addition, they value the clarity in pricing and the lack of concealed charges that can occasionally be found in conventional banking. Neobanks primarily serve a contemporary cohort of customers that prioritise rapidity, convenience, and personalisation. These characteristics form the fundamental principles of the neo-banking paradigm. Neobanks are actively reshaping the financial environment by establishing their own unique position and redefining client expectations, thereby creating new benchmarks for the banking industry. Consequently, this exerts pressure on conventional banks to adapt, which could result in a more streamlined and customer-centric banking environment in the future.

Strategic Models in NEO Banking:

Neobanks utilise diverse strategic frameworks that amalgamate contemporary corporate tactics with technology to disrupt conventional banking processes. The "Platform Business Model" is commonly used due to its digital nature. It focuses on creating value by enabling interactions between interdependent groups, typically customers and producers. Neobanks provide the connection between customers and a diverse range of financial goods and services, typically by forming partnerships with conventional banks or other fintech firms.

Neobanks employs the platform business model to build a digital platform that gives consumers access to a range of financial services. They frequently incorporate APIs that let outside companies offer extra services through the Neo Bank app, improving the user experience and offering a one-stop financial environment.

Freemium Model: The freemium model, which is used by many neobanks, offers basic banking services without charge but gates and charges for additional features. This promotes user upgrades to paid tiers for more exclusive services and aids in customer acquisition over time.

Marketplace Banking: This tactic entails providing a selection of financial services and goods from outside sources on the Neo Bank platform. It bears similarities to affiliate marketing, in which the neobank receives a reward for introducing customers to partner services such as financial products, insurance, or loans.

Aggregator Model: Neobanks frequently serve as financial aggregators, giving clients a cohesive picture of their finances even when their funds are dispersed among accounts at various banks. For the purpose of customising financial advice and product suggestions, this strategy relies on data and sophisticated analytics.

Data-Driven Model: Neo banks leverage big data analytics to offer tailored financial solutions and improve risk management by gaining insights into consumer behaviour and preferences through the use of enormous volumes of client data

Criteria for Evaluation of Neobanks
Source: Aite Group

Lean Thinking Model in Neo Banking:

Neobanking also employs the ideas of lean thinking, which centre on producing greater value with fewer resources. Neobanks' emphasis on technology to expedite procedures and cut down on waste in terms of time, effort, and money makes this model especially

effective. The following are some examples of how the lean thinking paradigm is applied in neo-banking:

- **Value Optimization:** Value optimisation is figuring out what the consumer really appreciates from a banking experience and then concentrating on providing it as smoothly as possible. Neobanks places a high value on features like fast help, customisation, and a mobile experience—features that traditional banks might provide less effectively.
- **Process Simplification:** Neobanks use digital tools to automate and simplify routine procedures, including fund transfers, account opening, and customer verification. This eliminates the need for lengthy paperwork and in-person branch visits.
- **Continuous Improvement (Kaizen):** Neo banks regularly update their apps and services in response to customer input and shifting market demands, a practice known as continuous improvement, or "Kaizen." Their ongoing improvement culture keeps them competitive and relevant.
- **Eliminate Waste:** Because of the reduced workforce size and absence of physical infrastructure made possible by process automation and digitization, neobanks have much lower overhead than traditional banks.
- **Empowering Staff with Cross-Functionality:** Neobank workers frequently take on many roles and are given the freedom to act quickly without consulting a higher authority, which accelerates innovation and customer service.

Neobanks are drawing in tech-savvy clients by implementing lean and strategic thinking models, and they are also forcing established banks to reassess their customer service and operational methods. Neobanks are implementing these models to reduce possible inefficiencies and improve client service as they expand.

Regulatory Landscape:

The banking sector in India is subject to extensive and diverse regulation, principally supervised by the Reserve Bank of India (RBI), the central banking institution responsible for managing monetary policy, currency issuance, and ensuring financial stability. The RBI's regulations are reinforced by instructions from other bodies, including the Securities and Exchange Board of India (SEBI), the Finance Ministry, and the Insurance Regulatory and Development Authority (IRDA) for their respective domains.

Overview of Banking Regulations in India:

The Indian banking sector is regulated by a multitude of important legislation and regulatory requirements. The legal framework governing the functioning of banks is established by key legislation such as the Banking Regulation Act of 1949, the Reserve Bank of India Act of 1934, and the Companies Act. Indian banks must comply with stringent regulatory standards, including the maintenance of mandated reserve ratios such as the Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR). They are also expected to adhere to severe guidelines for Know Your Customer (KYC) and Anti-Money Laundering (AML) procedures.

Specific Regulations pertaining to Neo Banking:

Neo-banking in India operates within a relatively new and developing regulatory framework. Neobanks, in collaboration with conventional banks, are not subjected to the same stringent regulatory oversight as regular banks. However, they are still subject to the regulatory framework that governs their business. Neobanks usually lack their own banking licence and instead depend on collaborations with licenced banks to provide banking services. This partnership enables them to effectively handle the regulatory obligations pertaining to account holdings, lending, and payment services. More precisely, their activities conform to the criteria set by the Reserve Bank of India (RBI) regarding the Payment and Settlement Systems Act of 2007. This statute regulates payment services and places importance on the safety and effectiveness of transactions. Neobanks providing services like payment gateways, prepaid payment instruments (PPIs), or functioning as part of the UPI infrastructure must adhere to the regulations set by the RBI for these activities.

The Role of Reserve Bank of India (RBI) and other regulatory Bodies:

The RBI is responsible for supervising and regulating payment and settlement systems, ensuring client protection, and maintaining financial stability. The Reserve Bank of India (RBI) has established a regulatory sandbox for fintech firms, including neo-banking platforms. This sandbox allows fintech innovations to be tested in a live yet controlled environment. It enables these organisations to continue innovating while operating within a regulated framework. In addition, the RBI has been proactive in suggesting novel forms of banking licences, such as Payments Bank and Small Finance Bank licences, which enable a greater number of participants to join the market with a specific focus on financial inclusion and payment services. These projects indirectly assist the neobanking ecosystem by promoting models that combine technology and financial services without explicitly offering the complete range of traditional banking services. Given that neobanks frequently engage with cutting-edge fintech solutions, ensuring their adherence to information technology regulations is of utmost importance. The IT Act of 2000 establishes regulations for safeguarding electronic data and transaction records, which is of utmost importance for digital banks that prioritise data security. Ultimately, neobanks must navigate a regulatory environment that is defined by a constantly changing set of standards and obligations for compliance. Although they enjoy the advantage of less regulation compared to traditional banks, they are nonetheless required to comply with strict operating and client protection standards. As the industry develops, it is possible that the RBI and other regulatory agencies could implement more sophisticated regulations that are specifically tailored to neobanking operations. These regulations would aim to strike a compromise between promoting innovation and guaranteeing the security and compliance of the financial system.

Technological Foundations of Neo Banking:

Neobanking is supported by a variety of advanced technologies that distinguish it from traditional banking. Essentially, it leverages APIs, AI, blockchain, and other technological advancements to efficiently expand financial services to customers.

Core Technologies Enabling Neo Banking:

- **APIs (Application Programming Interfaces):** Application Programming Interfaces, or APIs, have transformed the financial services industry by facilitating smooth communication between various software platforms. APIs are used by neobanks to incorporate services from third-party vendors and traditional banks onto their platforms. This implies that consumers will have access to a wide range of services under a single interface, such as fund transfers, payments, and financial management tools.

- **Machine learning (ML) and artificial intelligence (AI)** are the two main components of the tailored experience offered by neobanks. By analysing vast amounts of user data, these technologies enable customised product offerings, individualised financial advice, and automated customer support through chatbots and robo-advisors. Additionally, algorithms drive credit scoring, which enables neobanks to provide clients with prompt and customised lending services. Blockchain: To improve the security and effectiveness of their business operations, certain new banks are utilising blockchain technology.

- **Blockchain:** Blockchain technology may be used to build transparent, decentralised ledgers for transactions, which drastically lowers the risk of fraud and speeds up and lowers the cost of cross-border transactions.

- **Cloud computing:** Neobanks can support their rapid operations with scalable infrastructure thanks to cloud technology. It makes it possible to scale banking services easily to meet consumer demand and deliver them quickly. Neobanks may optimise their operating expenses as they expand, thanks to the on-demand nature of cloud computing.

- **Mobile Technologies:** Mobile technology is essential because neo-banks mostly use tablets and smartphones. It covers everything, from user-friendly and safe app design to mobile wallets and rapid QR code payment technology.

Cybersecurity Measures and Data Protection:

Since Neobanks only do business online, cybersecurity is of utmost importance. To stop fraud and data breaches, neobanks make significant investments in cutting-edge security measures like encryption, multi-factor authentication (MFA), and secure coding techniques. Part of their operational culture includes hiring specialised cybersecurity teams, conducting regular security assessments, and adhering to national and international data protection regulations. They guarantee the highest standards of data privacy and safeguard sensitive client information by adhering to laws like the Information Technology Act in India and the General Data Protection Regulation (GDPR) for consumers in Europe.

The "Digital Personal Data Protection Act 2023" and its effects on Neo Banking:

We might infer how the Digital Personal Data Protection Act of 2023 and general data protection laws around the world might affect neo-banking in India:

- **Data Localization:** Sections of the proposed bill required neobanks to store certain types of sensitive personal data inside the borders of India. This can require them to establish or engage with local data storage providers, making sure that their cloud architecture conforms to such regulations.

- **Consent Framework**: In order to gather and process personal data, Neobanks would need to set up a transparent consent structure. Clients may require comprehensive information about what information is gathered, why it is gathered, and how long it will be kept on file.

- **Data Protection and Privacy:** Under the act, new banks would have to have strict data security procedures to guard against unauthorised access, disclosure, or breaches of personal data. Strong encryption, frequent security audits, and quick breach notification protocols would all need to be implemented.

- **Data Processing Audits**: To make sure that the act's requirements are being followed, neobanks may conduct recurring audits of their data processing operations. This implies that neobanks may be required to keep thorough logs of all their data processing operations.

- **Rights of Individuals**: The act may specify particular rights of individuals with regard to their personal data, including the ability to access, amend, remove, or transfer their data. Neobanks would therefore have to offer channels through which clients might simply exercise these rights.

- **Data Protection Officer (DPO)**: Neobanks may have to designate a DPO who will be in charge of making sure the act is followed and who will function as the point of contact for authorities.

- **Impact Assessments:** Neobanks may be required to do impact assessments prior to using new technologies or processing procedures in order to identify and reduce any potential concerns about individuals' right to privacy, especially when they innovate within the financial industry.

- **Children's Data:** The act may include specific measures to safeguard children's personal information, something that modern banks should take extra care to preserve, especially when it comes to minors using financial products.

- **Penalties:** Neobanks that violate the act may face severe consequences; in addition to monetary fines, various types of restitution or orders to alter data processing procedures may also be imposed.

Neobanks that operate in India or seek to do business with Indian consumers would have to abide strictly by these restrictions, which would require hefty investments in data management procedures, cybersecurity, and legal compliance.

Key Players in the Indian Neo Banking Sector:

The neo-banking industry in India has grown rapidly in the last several years, and a number of significant companies have emerged as leaders in this field. They have created niches by focusing on particular clientele groups and launching cutting-edge goods and services. This is a glimpse into the dynamic ecosystem that some of the top neobanks are a part of.

1. Niyo

Founded: 2015

Services: Niyo offers digital savings accounts, wealth management services, and a global card that can be used in multiple countries without forex charges. One of its standout products is 'Niyo Bharat', targeted at blue-collar

workers, while 'Niyo Global' is aimed at international travellers for seamless forex transactions.

Customer Base: Niyo caters to young professionals, including salaried employees and frequent flyers, who seek a range of financial services on a single platform.

Growth Strategy: Niyo has carved its growth through strategic partnerships with banks and by offering user-friendly digital banking experiences. It has aggressively pursued acquisitions to enhance its product offerings and market penetration.

2. Open

Founded: 2017

Services: Open is marketed as a neo-banking platform for business accounts with features like automated accounting, real-time payments tracking, and an integrated payments gateway. They also provide expense management tools and APIs for developers to create their applications and services.

Customer Base: Open primarily targets SMEs, start-ups, and freelancers who want efficient banking to manage business finances.

Growth Strategy: The Company's growth has come through collaborations with traditional banks and by creating tailor-made solutions for niche segments within the business sector. It emphasises integrating banking with business workflows to drive customer value.

3. Jupiter

Founded: 2019

Services: Jupiter offers a digital banking app with features such as savings accounts, personalised insights into spending, and earning rewards. Its proposition includes no hidden charges, a simplified approach to money tracking, and quick UPI payments.

Customer Base: Jupiter is targeting tech-savvy millennials and Gen Z users who prefer an all-mobile banking experience and are keen on financial tools that help manage personal finances better.

Growth Strategy: Jupiter rides on the promise of community-driven banking, gathering user feedback for continuous improvement, and focusing on rapid customer acquisition through slick app design and user experience.

4. RazorpayX

Razorpay, best known for its payment gateway services, ventured into neo-banking with RazorpayX. It provides a suite of products, including corporate credit cards, vendor payouts, and tax payment solutions.

Customer Base: RazorpayX is tailored for startups and businesses looking for streamlined financial workflows, including automated payouts and banking operations.

Growth Strategy: RazorpayX has leveraged its stronghold in the payments industry to cross-sell neo-banking services and foster financial inclusivity among businesses.

Analysis of the market and development of strategies for growth:

The neobanking sector in India is now in its early stages of development, with significant untapped market potential. These banks' ability to innovate, create clear customer segments, and take advantage of the gaps left by traditional banks in terms of user experience and digital solutions affects their market share. Neobanks are implementing several growth tactics in order to acquire market share.

- **Customer Experience:** Placing emphasis on user-friendly interfaces and efficient customer assistance has been crucial in attracting a generation that is accustomed to smooth digital interactions.
- **Personalisation:** Neobanks utilise data and machine learning to provide personalised financial guidance and customised products, hence improving customer involvement.
- **Partnerships:** Collaborations with conventional banks and fintech firms enable neobanks to circumvent regulatory obstacles and enhance their range of services.
- **Educational Initiatives:** Numerous neobanks implement educational programmes to disseminate information to prospective users regarding the advantages of digital banking and to foster confidence.
- **Niche Targeting:** Certain neobanks distinguish themselves by focusing on parts of the market that are not well served, such as freelancers, small enterprises, or certain professional fields.
- **Service Expansion:** In order to retain clients and sustain growth, neobanks in India are increasingly adopting strategies like expanding their product offerings and providing services across borders. The Indian neobanking sector

has great potential due to the significant number of unbanked and underbanked individuals in India, as well as a strong youth cohort that is highly skilled in technology.

The major participants in India's neobanking sector are well-positioned for strong expansion and are prepared to revolutionise the banking experience in India through ongoing technological advancements, customer-centric focus, and strategic partnership models.

Customer Experience and Market Adoption:

In India, a rapidly developing nation with a growing fintech industry, neo banking platforms are establishing a notable presence by revolutionising the client experience in unprecedented ways. The increasing market popularity of these platforms can be attributed to their intuitive design, easy navigation, and personalised offerings.

How Neo Banking Platforms Enhance Customer Experience:

- **Digitally Native Interface:** For a generation used to the instantaneous and convenient nature of smartphones, Neo banks provide a modern, intuitive digital interface. Customers can access a wide range of services that traditional banks would provide across many platforms or in-person branches with only a few clicks.
- **Personalisation:** Neobanks provide a degree of personalisation that traditional banks can seldom match thanks to data analytics, artificial intelligence, and machine learning. Based on a person's spending patterns, financial objectives, and investment behaviour, they customise products and recommendations.
- **Real-Time Solutions:** Neo banks offer quick solutions that fit with the hectic schedules of contemporary customers, including real-time expenditure alerts, immediate balance checks, and quick fund transfers.
- **24/7 Access and Assistance:** Chatbots and virtual assistants are frequently integrated into neo-banking platforms to offer 24/7 customer service and financial guidance. Instant answers to inquiries are made possible by these AI-driven technologies, which stands in sharp contrast to the frequently drawn-out customer support procedures at traditional banks.
- **Innovative Products:** Neobanks are always coming up with new ways to provide services that appeal to both the financially literate and the novice when it comes to managing their finances. These include budgeting tools and savings plans that round up purchases.

User Demographics and Target Market in India:

Although India's neo-banking target market is broad, a few important demographics stand out:

- **Tech-aware Generation Z and Millennials:** This group of people is leading the charge in the neo-banking revolution. These younger clients, who are used to digital solutions, appreciate the ease, quickness, and virtual community that neobanks offer.
- **SMEs and Start-ups:** Neo Bank provides a range of tools to streamline business banking, payroll, tax filings, and other financial procedures for small and medium-sized businesses.
- **The Underserved and Unbanked:** Neobanks are making a determined effort to connect with people who have historically been shut out of the banking system and who live in rural locations. They want to make banking accessible to everyone, which is why they use local languages and streamlined user interfaces.

Market Adoption Rates:

The acceptance rate of neobanking systems in India has been promising, particularly among the specified demographics. The confluence of rising smartphone adoption, a drive for financial inclusivity, and the convenience of digital banking has bolstered their burgeoning popularity. User adoption, nevertheless, differs depending on the market category, exhibiting higher rates in urban and semi-urban areas. The COVID-19 pandemic expedited the shift towards digital banking, as numerous people embraced neo-banking for its contactless transactions. According to a report by ASSOCHAM-PWC, it is anticipated that India's mobile payments sector will reach $1 trillion by the first quarter of 2024. This underscores the significant opportunities for neobanking systems that primarily operate through mobile devices.

User Feedback:

Customer feedback for neobanking services tends to be predominantly favourable, as clients value the convenient and time-saving banking experience that provides them with enhanced control over their financial affairs. The most lauded qualities encompass effortless account establishment, intuitive applications, prompt customer support, and ground-breaking functionalities. Nevertheless, the feedback also included obstacles such as the requirement for enhanced financial literacy to

effectively utilise the various services provided, sporadic technological difficulties, and the innate scepticism that certain clients harbour towards entirely digital banking solutions. As the market becomes more developed, it is crucial for neobanks to receive ongoing customer input in order to make iterative improvements to their services. This is necessary to ensure that the user experience remains in line with expectations. The combination of technical advancement and customer-focused design allows neobanking platforms to effectively revolutionise the Indian banking industry, appealing to a digitally inclined clientele with varied financial requirements.

Challenges and Limitations of Neo Banking in India:

Neobanks have introduced a new wave of innovation and convenience in the changing Indian banking industry. However, they face obstacles and restrictions that may impact their sustainability and market position in the long run.

Regulatory Hurdles:

Although the Reserve Bank of India (RBI) has expressed a willingness to promote fintech innovation, the regulatory framework for neo-banking currently lacks definitive guidance. Neobanks often collaborate with traditional banks as a result of licencing limitations, which restrict their innovations to regulatory frameworks specifically built for traditional banking. Operating without a complete banking licence limits their ability to comply with regulatory requirements, which in turn hampers their range of services and ability to grow and adapt.

Cybersecurity Concerns:

The advent of digital convenience brings forth a heightened vulnerability to cyberattacks. Online-only banks, known as neo banks, must continuously allocate resources to enhance cybersecurity protocols in order to safeguard consumer data. The difficulty is heightened as cyber dangers consistently develop, necessitating ongoing attentiveness and swift reactions to possible breaches. Moreover, balancing compliance with data protection rules while pursuing innovation can be a challenging task for neobanks.

Operational scale and Profitability:

Neobanks face a distinct issue when it comes to expanding their activities without a matching increase in physical size. Although there are cost savings in avoiding the initial investment of establishing physical branches, it can be challenging to attract a sufficient number of customers to become profitable, particularly when attempting to persuade traditional banking consumers who are accustomed to in-person services. Furthermore, the measure of profitability must be carefully weighed against the expenses associated with client acquisition, technological development, and the provision of competitive pricing. Several neobanks depend on venture capital funding, and the long-term viability of achieving continuous profitability remains unproven, particularly given the price-conscious nature of the Indian market.

Concerns about consumer trust:

Establishing trust just through digital interactions is a challenging endeavour. A significant number of clients, particularly those in the older age group or from rural areas, have a sense of doubt regarding the dependability and safety of a bank that lacks a physical establishment. Neobanks must establish confidence by implementing strong security measures, maintaining clear communication, and delivering exceptional customer service, all while managing the challenges of operating at a large scale without in-person encounters.

Rivalry with Conventional Financial Institutions:

Conventional banks have begun to rapidly digitalize their services, thus narrowing the technological divide. Neobanks confront intense competition as traditional banks leverage their established trust, large client base, and strong capital to enter the digital space. The problem is not only to attract new clients but also to keep them in the face of the appeal of an enhanced traditional banking experience.

Enhancing knowledge and understanding of financial concepts and ensuring equal access for all individuals:

Financial literacy in India exhibits substantial disparities, as a considerable segment of the population remains unacquainted with digital banking instruments and concepts. Neobanks should prioritise consumer education and localised support to ensure that their services are not unintentionally exclusionary.

Furthermore, neobanks strive to incorporate the population that does not have access to traditional banking services. However, the absence of infrastructure, such as the limited availability of smart devices or an unreliable internet connection, presents substantial obstacles for this particular group.

Costs associated with the development and maintenance of technology: Creating and sustaining state-of-the-art technology requires a significant investment of funds. Neobanks are anticipated to provide cutting-edge in-app functionalities and banking

solutions, necessitating substantial investment in research and development. Technology advancements are what are driving the ongoing process of updating the current technology stack. This typically results in recurring, significant expenses.

Study of how individuals make decisions and behave as consumers, and the analysis of market forces and their impact on the buying and selling of goods and services:

Ultimately, the success of neobanks is dependent on the unpredictable nature of consumer behaviour and the ever-changing dynamics of the market. Economic policies, demographic changes, and international calamities like pandemics can all have an impact on client preferences and market conditions, making flexible strategies and robust business models crucial.

Neobanks in India are undeniably a revolutionary influence, although they function within a context filled with distinctive obstacles. Their capacity to creatively overcome these challenges while expanding in a sustainable manner and establishing trust would be crucial in shaping their prospects in the Indian financial sector.

Impact on Traditional Banking:

The advent of neobanking in India has brought forth a new paradigm, leading to a reorganisation of the operating strategies of the conventional banking sector. These digitally-born establishments pose a unique and significant challenge while also presenting possibilities for cooperation and creativity in an industry renowned for its caution and aversion to change.

Competitive Threat to Conventional Banks:

Neobanks are posing a competitive threat to traditional banking institutions. The rise of technologically proficient generations has led to a significant portion of the banking population expecting modern banking services to be agile and user-friendly. Neobanks have met these expectations by providing instantaneous and 24/7 services, making agility and user-friendly technology essential aspects of modern banking. Conventional banks, burdened by outdated systems, complicated regulations, and vast physical infrastructure, frequently struggle to match the degree of adaptability and creativity that neobanks offer. Neobanks' cost-effectiveness and focus on client satisfaction have compelled traditional banks to swiftly adapt in order to maintain their customer base and market dominance.

Conventional Banks Responding:

Traditional banks have not remained unchanged in response to these dynamics. However, they have acknowledged the necessity of actively incorporating digital technology into their operations. Numerous entities are revamping their digital services with the goal of providing features that replicate the ease and availability found in modern bank platforms. This shift is represented by investments in artificial intelligence to enhance personalised banking services, blockchain technology to provide security, and cloud computing to improve operational agility. In response to the rise of neobanks, traditional banks are addressing the issue by establishing internal innovation centres, forming alliances with fintech firms, and even purchasing growing fintech companies. These initiatives demonstrate a deliberate shift towards fostering a culture of innovation that resembles the agile attitude of neobanks.

Collaborations between Traditional Banks and Neo-Banking Platforms:

A notable advancement in this changing environment has been the partnerships formed between conventional banks and neobanks. These collaborations enable conventional banks to utilise the innovative products and digital knowledge of neobanks to expand contemporary services to their clientele. Collaborations with established banks offer neobanks, which sometimes lack the appropriate regulatory licences to operate independently, a crucial legal structure and the ability to utilise current banking infrastructure. The relationships between traditional banks and neobanks have been shown to be mutually beneficial. Traditional banks incorporate innovation into their product offerings, while neobanks enhance their credibility and expand their reach. Co-created solutions cater to a wider range of customers by blending the reliability and stability of traditional banking with the flexibility and creativity of neo-banking.

Shift in Consumer Behaviour towards Digital Banking Solutions:

Indian consumers are increasingly adopting digital banking solutions due to the appeal of convenience, speed, and the seamless integration of financial services into their regular digital interactions, in line with worldwide trends. There has been a significant increase in the need for banking services that are provided in real-time. This has also led to a higher expectation for personalised financial solutions that are specifically designed to meet individual demands. Conventional banks recognise this change and are adjusting to fulfil these digital requirements, prioritising client experience

to enhance loyalty and involvement. Given the current digital transformation driven by widespread smartphone usage and internet access, providing digital banking solutions is no longer a choice but a requirement to remain relevant to today's consumers.

In conclusion Conventional banks are confronted with the task of both mitigating the competitive risk posed by neobanks and capitalising on the benefits they offer. The immediate answer involves digital transformation and alliances with neo-banking platforms. However, the continual change in consumer behaviour highlights the pressing requirement for innovation. It is crucial to find a careful equilibrium between maintaining the reliable elements of traditional banking and adopting the efficiency and improvements in customer experience required by the digital age. Neobanks' ongoing innovation will not only influence the future of banking but also drive the entire sector to progress collectively.

Future Trends and projections in Indian Neo Banking:

India is on the verge of a fintech revolution, with the neo-banking sector emerging as a prominent force in defining the future of financial services. This is an analysis of the current changes and a well-informed prediction of the future.

Analysis of Current Trends:

Rise of Specialised Neo Banks: Neo banks that target particular markets, such as young people, business owners, or particular professional groups, are becoming more prevalent in India. An increasing number of online customers looking for personalised banking experiences is fueling their expansion.

Partnerships with Established Banks: Modern neobanks frequently depend on alliances with well-established banks. As both sides look for the advantages of cutting-edge products, along with regulatory compliance and sophisticated financial infrastructure, this trend is probably going to continue and grow.

Integration with Lifestyle and E-Commerce Services: To give consumers a more comprehensive online experience, a number of neobanks are growing their ecosystem by incorporating financial services into well-known lifestyle and e-commerce applications.

Emphasis on Financial Inclusion: Embracing the unbanked and underbanked is a trend observed across neobanking platforms, with the primary goal of enhancing financial inclusion by utilising India's extensive digital footprint.

Success Stories from the Regulatory Sandbox: The RBI's regulatory sandbox, which allows new products to be tested in a controlled setting, is generating innovations that are fostering innovative payment methods and customer-focused models in neo-banking.

Prediction for Future Expansion and Evolution:

Complete Banking Licences for Neo Banks: In the near future, laws may change to enable neo banks to apply for complete banking licences, giving them the ability to operate independently and lessening their reliance on conventional banking partners.

Technological Diversification: With the help of cutting-edge AI and machine learning technologies for upselling and cross-selling, neobanks will keep expanding their offerings beyond traditional banking services to include wealth management, peer-to-peer lending, and insurance services.

Geographical Expansion: In order to serve the demands of a larger portion of the populace and advance the overall digitalization of finance, neobanks are anticipated to expand from metropolitan areas into rural ones.

Adoption of Blockchain Technology: Due to its potential for greater security and transparency, blockchain technology is expected to be used more frequently in neo-banking processes, such as remittances and fraud prevention.

AI-driven personal finance assistants with speech recognition and natural language processing capabilities may proliferate and provide a more personal and interesting banking experience. These assistants are known as personalised AI banking assistants.

Potential Influence of Future Regulations and Technological Advancements:

Privacy and Data Protection Laws: Neo banks' handling of consumer data is anticipated to be impacted by stricter data privacy laws. Maintaining operational integrity and customer trust will depend critically on the adoption of global best practices.

Open Banking Standards: By forcing traditional banks to grant access to their APIs to outside developers, including neo banks, the possible implementation of open banking frameworks will promote competition and innovation in the market.

Crypto Regulations: Neo banking may be able to provide cryptocurrency-related goods and remittance

services if cryptocurrencies and associated blockchain technologies are adopted and regulated.

5G Infrastructure: By providing speedier and more dependable mobile banking services even in remote locations, the introduction of 5G technology could further support the digital banking sector.

IoT in Banking: Neo banks may combine financial services with wearables and smart home devices as internet-of-things (IoT) gadgets proliferate, further integrating banking into daily life.

In conclusion, the neo banking scene in India is expected to undergo significant expansion and change in the coming years because to factors including as regulatory advancement, consumer demand, and technology advancements. Neo banks are well-positioned to transform the banking experience, reaching deeper into society and creating a more inclusive, effective, and customised financial environment for millions of customers, if they take a proactive approach to these developments.

Case Studies of Neo Banking Success in India:

There are notable instances in the developing Indian neobanking industry that highlight the viability and promise of this cutting-edge method of financing. Let's look at a few well-known case studies.

Niyo:

Niyo began as a fintech firm with the goal of digitising the banking process and offering both salaried staff members and manual labourers seamless services. Their answer was a digital savings account with a 0% balance minimum, an enticing interest rate, and complete smartphone app management for consumers.

Success of Partnership: In order to offer these accounts, Niyo teamed up with reputable banks like YES Bank and DCB Bank. This allowed them to capitalise on the confidence that these organisations already enjoy while also advancing their technological capabilities.

Customer Growth: By emphasising the user experience, Niyo was able to leverage features like real-time tracking of withdrawals and spending to propel its customer base to unprecedented heights. Through user onboarding, Niyo had added over 1.5 million users by 2020.

Service Expansion: Beyond providing rudimentary banking services, Niyo has extended its offerings to include wealth management services and "Niyo Global," a card service that offers favourable exchange rates for travellers from outside.

RazorpayX:

Razorpay started out as a provider of payment gateways before branching out into neo-banking with RazorpayX, a platform meant to help SMEs and startups with their banking needs.

Success of the Partnership: RazorpayX partnered with RBL Bank and ICICI Bank, fusing RazorpayX' s technical agility with the stable infrastructure and legal framework of established banks.

Customer Growth: Businesses were able to drastically reduce their operational burden by using RazorpayX to automate pay-outs, tax payments, and transaction reconciliation. By 2021, RazorpayX claimed to have handled $40 billion worth of payments a year, a significant increase in the number of users.

Service Expansion: RazorpayX' s appeal as a holistic financial platform for businesses is increased by providing corporate credit cards, company loans, and automated payroll management in addition to transaction handling.

In summary these case studies emphasise the traits of the industry, including strategic partnerships, specialised services, and a deep comprehension of market demands, and they encapsulate the successful models of neobanking in India. The consumer-focused banking offered by Niyo and the business-centric services offered by RazorpayX demonstrate the various ways that neobanks can develop and carve out niches in order to offer financial services with value added. These instances show how quickly customers are adopting neobanking and how they value digital-first strategies, indicating a promising future for neobanking in India's financial sector.

Neo-banking is crucial in reducing the expense of Bank Branch Audits:

In fact, the emergence of neo-banking has caused a paradigm shift in the financial industry, including the way banks handle their running expenses. The expense of inspecting conventional bank branches is one major area of influence, and neobanking platforms are significantly reducing this cost. How to do it is as follows:

Decrease in Physical Infrastructure: Neo banks mostly conduct business online, relying little to no on physical branches. Because of this innate characteristic, fewer physical audits—which can be expensive and

time-consuming—are required. There is less ground to traverse during audits when there are fewer branches, which results in savings.

Digital Record-Keeping: All of Neo Bank's interactions and transactions are conducted through digital-first solutions. As a result, a wealth of well-organised, searchable, and easily analysed data is produced. Advanced data analytics techniques have made it possible to conduct audits that formerly required the auditor to manually go through documents, saving a great deal of time and effort.

Continuous Compliance: Because neobanks are digital, many of them use continuous compliance approaches, which have systems set up to track and log compliance in real-time. This lessens the risk of non-compliance as well as the expenses and labour related to regular compliance audits.

Automated Reconciliation and Reporting: Neo banks are able to immediately generate reports and automate reconciliation processes by utilising advanced software. Because of this automation, fewer manual interventions and drawn-out audit procedures are required, which lowers the related expenses.

Convenience in Remote Auditing: Neo Banks' digital architecture makes remote auditing a breeze. Due to the online accessibility of the data and systems, auditors can complete their evaluations without needing to visit a branch, which reduces travel and accommodation costs.

APIs and Third-Party Integrations: Auditors may more easily access and validate banking transactions across platforms thanks to APIs, which allow the integration of third-party goods and services into the neo-financial systems. As a result, audits that ordinarily require cooperation across several service providers take less time and money.

Real-Time Analysis and Fraud Detection: Neo banks frequently use cutting-edge real-time fraud detection technologies to cut down on fraud and, consequently, the amount of work that needs to be done in post-fraud auditing investigations. This preventive action can result in significant cost savings.

In conclusion, bank branch audit complexity and expense are being decreased by neobanking models by virtue of their digital-first operations. They are making it possible for auditors to use technology to carry out audits that are quicker, less expensive, and more effective. More audit cost savings are anticipated as neobanks develop and their technology advances, putting pressure on the conventional banking sector to change and adapt as well.

Cost and Management Accountants play a major role in Neo Banking:

CMAs are essential to these digital-first financial institutions' strategic expansion and financial stability. The development of neobanks is greatly aided by CMAs in the following critical areas:

Financial Planning and Analysis: To forecast trends, assess operational effectiveness, and create budgets, CMAs delve deeply into financial data. Neobanks, which handle high transaction volumes and depend on predictiv service quality, CMAs are invaluable. **To maintain lean operations, this may entail examining vendor contracts, technology investments, and transaction expenses.**

Product Pricing and Profitability Analysis: CMAs assess how profitable the many goods and services that neobanks provide are. They aid in developing competitive pricing strategies for new financial products or service features by having a thorough awareness of market prices and cost e analytics to guide their strategic choices, need their numerical competence.

Cost Optimisation: One of the distinguishing features of neobanking is its operational model, which enables it to provide services at a lower cost. When it comes to finding areas where expenses can be cut without sacrificing
drivers.

Regulatory Reporting and Compliance: Neobanks must adhere to strict regulations that are subject to constant change. CMAs make sure that financial operations follow the rules established by organisations such as the Reserve Bank of India (RBI) and that proper records are kept for regulatory review and audit purposes.

Performance Management: CMAs keep an eye on the Neo Bank's operational effectiveness and financial stability by utilising key performance indicators, or KPIs. They offer information on churn rates, profitability of customers, and other crucial data that influence decision-making.

Risk management: CMAs recognise and assess credit, market, and operational risks, among other financial concerns. The trust and viability of neobanks depend on their capacity to predict probable financial effects and offer advice on mitigation methods. They do this by having a solid understanding of risk management principles.

Management and Operational Strategy: CMAs support neobanks' overarching strategic planning by

evaluating both financial and non-financial data. Sustainable growth depends on their advice on resource allocation and cost-effectiveness.

Financial Technology Insights: Given how dependent modern banks are on financial technologies, CMAs that are knowledgeable in fintech may provide insightful analysis on technology investments and innovations, determining the relevance and influence of these technologies on the financial strategies of the bank.

Business Process Optimisation: CMAs focus on optimising operations to increase productivity by utilising their expertise in cost management and process optimisation. To establish more efficient processes, they can implement lean approaches and other cost-reduction methodologies.

Corporate responsibility and sustainability reporting: CMAs play a part in sustainability reporting by ensuring that the Neo Bank's activities comply with more general environmental and social governance (ESG) standards, an increasingly important area of attention for enterprises in general.

The function of CMAs is complex and becoming more critical in the changing financial ecosystem, as neo-banking is setting new standards for service delivery and client expectations. Neobanks are able to successfully manage the challenges of the digital era thanks to their combination of financial and analytical skills, which keeps them profitable, compliant, and competitive.

The reasons RBI should use more the services of cost accountants in neo-banking:

In its capacity as the central bank that controls the monetary policy of the Indian rupee, the Reserve Bank of India (RBI) is in charge of managing a complicated and dynamic financial system. In the context of neo-banking, employing cost accountants' specialised talents can provide a number of benefits.

Cost management expertise: Cost accountants are able to offer the RBI a comprehensive cost analysis of modern banking operations. Their knowledge can be useful in developing regulations that promote effective banking practices without sacrificing the calibre of services.

Pricing Strategy Insights: Since neobanks provide cutting-edge financial products, cost accountants can help the RBI comprehend the items' pricing strategies and financial viability to make sure they are equitable, competitive, and long-lasting.

Financial Sustainability Analysis: In order to preserve stability and confidence in the financial system, the RBI can assess the long-term financial sustainability of new banks by utilising the expertise of cost accountants.

Regulatory Compliance: Cost accountants can assist in making sure that neobanks abide by different reporting and cost-related standards. Their capacity to decipher and implement legal requirements can improve the framework for overall compliance.

Risk Assessment and Mitigation: Cost accountants can assist the RBI in evaluating the risk profiles of new banks and helping to design risk mitigation strategies because of their in-depth knowledge of operating costs and financial statements.

Financial Planning and Budgeting: To help new banks avoid financial mismanagement that could have wider economic ramifications, the RBI should employ insights from cost accountants to improve their financial planning and budgeting procedures.

Innovation in Economically Viable Procedures: Cost Additionally, accountants may foster innovation in financial processes by providing their knowledge of operational efficiency to the benefit of the RBI-regulated neo-banking sector.

Improved Decision Making: The RBI can make better decisions when it comes to setting rules and policies that impact the entire banking industry thanks to the data and research supplied by cost accountants.

Audit and Assurance: The RBI, which is responsible for supervising financial institutions, may use cost accountants to carry out or assist with thorough audits of neobanks in order to preserve accuracy and transparency in financial reporting.

Encouraging Financial Inclusion: By identifying cost constraints and suggesting ways to get around them, cost accountants can assist the RBI in developing strategies for establishing banks that are in line with national financial inclusion objectives.

In summary, cost accountants play a critical role in giving the RBI the fine-grained financial information and analytical know-how it needs to successfully oversee and support the neobanking industry. Their expertise in strategic financial planning and cost management would provide a careful and balanced approach to managing this fast-paced area of the financial sector.

Conclusion

In India's financial scene, neo-banking has become a powerful and revolutionary force that has drastically changed how banking services are conceptualised, created, and provided to customers. Neobanks have occupied a significant market niche by utilising innovation and technology to meet the needs of a mobile-first society that expects convenience, effectiveness, and personalisation from its financial dealings. With its user-centric products, data-driven insights, and flexible infrastructure, this new breed of banking is not just a threat to established banking systems but also a major player driving the industry towards a digital future. Neo-banking has enormous potential to grow and transform the banking sector, as seen by its quick uptake by tech-savvy consumers, growing interest from traditionally underserved groups, and the strategic alliances it is forming with well-established financial institutions. Neo-banking must be accompanied, as with all disruptive developments, by careful regulation that safeguards customers, upholds financial stability, and creates an atmosphere that encourages innovation. The difficult challenge of fostering this growth while putting protections in place to prevent systemic risks falls to the Reserve Bank of India and other regulatory organisations. It is evident that the story of banking is changing when we consider the development of neo-banking in India. This industry is a living example of the promise of financial services democratisation and inclusivity, all supported by a rapidly accelerating digital transformation. Neo-banking will be steered towards a future in which it is an essential, resilient, and dynamic part of India's financial ecosystem by striking a balance between innovation and regulation.

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The Insolvency and Bankruptcy Code (IBC) - The Journey Ahead

Shri C. M. Khurana
Former CGM-CFO Oriental Bank of Commerce
Former CGM (credit) IIFCL

Background

With the advent of Amrit Kaal, India is aspiring to be a $30 trillion developed economy by 2047. This presupposes the existence of an enabling environment conducive to healthy credit flow and generation of capital. Besides the comprehensive strategies to promote savings and investments, backed by innovative use of technology and risk taking capabilities, it requires a robust and investor friendly Insolvency and Bankruptcy ecosystem to handle the rehabilitation of weak accounts, resolving insolvency and providing an Exit route. In order for the bank credit to not get struck in the system or turn into bad loans, it is important that banks or creditors are able to recover as much as possible from the defaulter as quickly as possible. The business can get a chance if still viable to start afresh with new owners or its assets can be liquidated or sold off in a timely manner. This way fresh credit can be injected in the system by way of circulation of funds and the value degeneration of assets can be minimised. It is with this intent and purpose that in May 2016 a comprehensive 'Insolvency and Bankruptcy code 'was notified by the Government of India.

Basic Structure

The Insolvency and Bankruptcy code 2016 brought about a paradigm shift in the landscape of Insolvency and Bankruptcy mechanism by introducing a more structured and institutionalised approach with emphasis on a time- bound resolution and retention of value of the stressed assets. The legal framework prior to the notification of the code was fragmented with various laws and regulations relating to different aspects of insolvency and Bankruptcy. This led to ambiguity, overlapping and complexities. Under the previously existing dispensation, BIFR (Board for Industrial And Financial Reconstruction) was established in 1987 under the Sick Industrial Companies (special provisions) Act (SICA) as a development finance institution under the ministry of finance. However, it did not prove to be a very effective tool and a need was felt to replace it with a more robust and efficient mechanism to deal with insolvency and Bankruptcy matters in a comprehensive and holistic manner.

The BIFR got replaced with NCLT (National company law Tribunal) as the adjudicating authority under the new Legislation i.e IBC Code and National company law Appellate Tribunal (NCLAT), is the Appellate authority in place of AAIFR. Another key pillar of the eco system is the IBBI (Insolvency and Bankruptcy Board of India), which is responsible for implementation of the code for corporate persons, partnership firms and individuals. The objective is to promote entrepreneurship, availability of credit and balance the interests of all the stake holders (source: IBBI website). It is a regulator for the profession as well as processes. It has regulatory oversight over the Insolvency professionals and information utilities, and also acts as the designated authority for regulation and development of the profession of valuers. The rules are formed and enforced by IBBI relating to various categories of debtors for resolution as also liquidation processes.

The IBC thus constitutes 4 pillars viz the Adjudicating Authority (NCLT.), the regulator (IBBI), the Insolvency professionals (IPs) and information utilities (IUs).

Broad Process (CIRP)

The code has stipulated a well-structured Corporate Insolvency Resolution Process(CIRP).A default (non-payment of debt that has become due) by the Corporate Debtor (CD-borrower) triggers the CIRP .An application for registration of the case can be made by a creditor of CD or by the CD itself before the adjudicating authority .If the application is accepted, the same is

followed by a moratorium and appointment of an interim resolution professional (IRP).The process initially involves public announcements, collection and verification of claims. The process also involves formation of a committee of creditors (COC) and appointment of the resolution professional (RP). The COC has a crucial and significant role to play in assessment of the resolution plan formulated at the RP level and is the most important business decision making body in the CIRP process. The resolution plan if found suitable needs to be approved with 66% majority by value. The resolution plan is then placed before NCLT, the Adjudicating Authority. After the approval by NCLT, the resolution plan is implemented as per the terms and conditions contained therein. In case the resolution plan is not approved by the COC, the application is filed before NCLT and Liquidation proceedings are initiated.

The COC is vested with the responsibility to assess the viability of the corporate debtor(CD) and determine the manner in which the distress is to be resolved by turnaround and restructuring of the CD within the time lines set down by IBC. The professional expertise and experience of the bankers as lenders is required to applied in a holistic manner in evolving a viable resolution plan. Banks as financial creditors are an essential part of COC and can engage the services of an Insolvency Professional to represent them in the meetings which are conducted on a periodic basis. While COC is supreme in commercial matters relating to a CIRP, its decisions must reflect that it has taken into account maximizing the value of assets of the CD and that it has adequately balanced the interests of all stakeholders. The Resolution Professional (RP) holds a central position in conducting the CIRP and his role is vital to the efficient operation of the resolution process. The RP is expected to act a bridge between the debtor and creditors and has a significant role in aligning the interests of CD with those of the creditors.

The provisions of IBC override anything contained in any other law in force or any instrument having effect by virtue of such law. The IBC is a complete code on matters relating to Insolvency and Bankruptcy. However other laws will continue to apply for all other matters.

The IBC is a comprehensive legislation which needs to be read in conjunction with the relevant rules regulations and guide lines issued by the central government and IBBI. The procedural and other matters have been left to central government and IBBI to enable a quick response to the changing economic conditions and overall ecosystem.

Current Status

As per data available from IBBI newsletter for the quarter September -December 2023, as on 31st December 7325 cases have been admitted under CIRP, out of which in 891 cases Resolution Plans have been approved,1124 cases have been closed on appeal or review or settled, in 2376 cases liquidation order has been passed and 1899 cases are on-going. As per RBI 'Trend and Progress Report on banking 2022-23', the IBC remained the dominant mode of recovery with a share of 43% in the total amount recovered in 2022-23. The realisation against claims also improved to 40.4%as against 23.9% recorded in the preceding financial year.

One of positive outcomes of the implementation of IBC code at broader generic level is an overall improvement in the 'Ease of Doing business index 'of India. Similarly, the IBC model of 'creditor in control 'as against the previous mechanism of 'Debtor in possession' has also lead to an apparent improvement in credit discipline and culture which bodes well for lenders.

The journey Forward

The IBC ecosystem as a whole is still evolving and undergoing virtual metamorphosis. IBBI is proactively seeking views, feedback and suggestions from various stake holders from time to time for bringing in improvement and raising the efficacy of the mechanism. The process at present is beset with undue delays in handling of the cases with average period much higher than the stipulated period, protracted litigation, and lack of clarity on several issues.

The huge amounts of haircuts involved is also a subject matter of criticism. In the discussion paper released on Ist November 2023, it is heartening to note that specific changes on various points have been proposed with proper rationale and justification in each case. The changes /improvement are siught on a wide variety of issues ranging from clarity of role of COC, the need for regular meetings, the issues relating to valuation, sharing of information etc. The sharing of proceeds in an objective and equitable well defined manner is also desirable. The strengthening of the NCLT infrastructure with additional positions and regular filling of the vacancies is also the need of the hour. The authorities are seized of these matters and some fundamental changes are expected going forward.

Conclusion

IBBI as the regulator is playing a proactive role carefully addressing various issues to build a more robust mechanism. IBC has brought in a culture change with an enabling environment for further improvement in the ease of doing business to take the economy to the next level of growth trajectory. The committee of creditors and the Resolution professionals need to bring greater efficiency and adopt more pragmatic stance in the entire process. More collaborative approach with a view to creating a win situation for all the stake holders is perhaps essential at this point of time to make IBC a more active contributor in our developmental objectives in a holistic manner.

Model Risk: Management: A financial sector perspective

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

[*Increasingly larger number of models are being used by entities in financial sector exploring ever-broadening scope of applications of models in decision making. An increasingly greater dependence on models, challenges posed by regulatory changes and evolving regulatory expectations, and talent deficit are driving banks and financial institutions toward a more effective and value centric model risk management framework. In this backdrop the article attempts to outline the basic approach to model risk management.*]

What is a model

"Model" may be defined as a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. (FED RES SR 11-7). A Model is a system built on assumptions to operate under a theoretical framework or logic with the intent to replicate the output of a real-life system given the inputs of relevance. Models take as input relevant data and information and crunch the data adhering to a predefined protocol, constraints, and algorithm and throw the outputs.

In business and finance Models are generally used in forecasting outcomes given the structure defined by interrelationship among explanatory variables, parameters, and the outcomes. Models generally have two sets of variables endogenous and exogenous. Models output the values of endogenous variables given the externally imputed values of both exogenous variables and the parameters.

A Model attempts to explain the variations inherent in a set of data based on the variability of other set of data which are the explanatory variables identified under a theoretical premise of the relationships between them. To gauge what might occur in the real world, a model can never be error-free. Models are prone to manipulation, misunderstanding or misuse. Therefore, considering the outputs and estimates thrown by a model as sacrosanct might lead to unexpected losses for the firm using/misusing the model. All models will fail to some extent, to replicate the true "state of the world".

Uses of models

Although banks and financial institutions have been increasingly using data-driven, quantitative decision-making tools for a number of years, they now a day extensively use quantitative techniques and models in several aspects of financial decision making. Models are also used for understating the implications of business strategies and communication of business decisions.

Models are routinely used for many activities, including credit origination, ensuring capital and reserve adequacy, valuation of exposures, instruments, and positions besides measuring risk; client assets management; assessing compliance with internal limits; maintaining the formal control apparatus of the entity or meeting financial or regulatory reporting requirements and issuing public disclosures so on and so forth. Banks are applying model also for complex products in markets which have since enlarged and undergone significant changes. Regulatory changes also necessitate development of new models for use.

The increasing uses of models in several aspects of business particularly banking &finance, tend to indicate the extent of improvements attainable in business decision making through use of models. But models also entail some costs. The costs are of both direct and indirect nature. Direct cost involves engagement of resources to develop and implement suitable models

appropriately. The potential indirect costs of using models, is the likely adverse impact and attendant financial losses on account of decisions based on models that are deficient in capturing the true essence of the relative system structures and dynamics with reasonable degree of accuracy or misuse of model. Active model risk management should address such consequences.

General Structure of Models

A model generally comprises three components: (i) Information input component: This component sets out the assumptions and inputs data to the model; (ii) Processing component: It crunches inputs to generate estimates; (iii) Reporting component: This component interprets the estimates to generate useful business information

Model Risks

Famous British statistician George Box said "Essentially, all models are wrong, but some are useful." Assumptions underlying the models simplify models and therefore various facets of actual complexity embedded in real-world events remain unaccounted for. Consequently, unexpected model outcomes are inevitable albeit in varying degree and extent.

Model risk may be described as the potential risks arising due to reliance on an imperfect model used in decision-making. Model risk may emanate at various points in a model's lifecycle – development, validation, implementation, and use. It is often considered a subcategory of operational risk.

As a model is typically a simplified version of reality, there is potential possibility that one or more factors might be omitted to be appropriately accounted for in its calculations, or will be improperly rendered in the model's output. Based on imperfect assumptions possible outcomes derived from these calculations can lead entities to make costly errors.

Perhaps the most noteworthy instance of model risk failure in the recent past was the reliance of many banks on flawed assumptions when pricing complex credit derivatives in the build-up of the global financial crisis (2008), wherein many sustained losses in their subprime mortgage investment products.

Models are simplified depiction of uncertain real-life association among observed time series or spatial variables, values, and events. The actual relationship and structures generating the observed data may be too unwieldy and complex. Therefore, simplification of assumed relationships and structure in the models under set of simplifying assumptions is unavoidable. All Models generally suffer from some elements of imperfections of varying degree. Thus arises the "Model risk" which refers to the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk tends to increase with increasing model complexity, greater uncertainty about inputs and assumptions, and broader uses. Aggregate model risk is impacted by interface among other models in use and dependencies among models; commonality of assumptions, data, or methodologies.

Model risk is unavoidable if models are used. Model risk has potential to cause financial loss, poor business and strategic decision-making, or damage to organization's reputation. Model risk arises primarily for two reasons: (1) a model may ab initio have basic flaws/errors and yield imprecise outputs vis a vis its underlying design objectives and intended business uses; (2) a model may be used incorrectly or inappropriately or there may be a confusion and lack of precise appreciation about its limitations and assumptions. Notwithstanding fundamental soundness of a model yielding precise outputs consistent with the design objectives, the model may exhibit high model risk if it is misapplied or misused. Application of a model outside its area of validity, sample bias in model data and flawed model design are some of the oft encountered deficiencies giving rise to escalation of model risk while using models for decision making by the organisations. Use of models outside the environment for which it was designed poses greater concern. Entities often exhibit tendencies to apply existing models to new products or markets, oblivious of changed market conditions and customer expectations. Decision makers should have complete appreciation of the limitations of a model to avoid possible use of a model not consistent with its original intent.

Aggressive digitization and automation have been triggering integration of more models into business processes, which tend to escalate the exposures of institutions to greater model risk and consequent potential operational losses.

Model Life Cycle

A Model Life Cycle (MLC) depicts the entire process workflows consisting of well-defined stages for operating, governing and maintaining the model in its post-development life cycle till discontinuation of its uses. A typical model life cycle comprises following stages viz., model need analysis, model proposal, model development, pre-validation, independent review,

approval, implementation, testing, use, maintenance, validation, reporting, changes.

Model Risk Management

Entities using models are expected to manage model risk. Model risk management aims at employment of techniques and practices that lead to identification, measurement and mitigation of model risks. Model risk has to be managed like any other types of risk. With an understanding of the source and magnitude of model risk in place, the next step is to manage it properly.

For effective model risk management (MRM) the following activities are considered essential:

i. Maintenance of an enterprise model inventory
ii. Documentation of model regarding the following in an accessible repository
   a. Underlying assumptions
   b. Formulae and algorithm in use
   c. Data sources
   d. Business use
   e. Independent validation
   f. Clear policies for model development

For entities wherein model outputs bear a significant impact on business decisions, including decisions related to risk management and capital & liquidity planning, and exhibit potential to entail harmful impact on entities' financial condition, model risk management framework need be more extensive and rigorous.

Essential elements of Model risk management are robust model development, implementation, use, a sound model validation process, and governance.

Model development is not a straightforward or routine technical process. Disciplined and authentic knowledge-based development and implementation processes consistent with the situation and goals and policies of the model user are integral part of model risk management framework. The technical competency, experience and judgment of developers would have significant bearing on the volume of embedded model risk.

Exercise of considerable amount of subjective judgment is involved at various stages of model building, execution, use, and validation. It is therefore imperative for decision makers to appreciate that the associated extent of subjectivity would tend to increase the importance of sound and comprehensive model risk management processes.

In common Enterprise Risk Management parlance, undernoted three lines of defence are envisaged.

- **First line of defence**: model builders to carry out their own testing.
- **Second line of defence**: independent validation of the model.
- **Third line of defence**: audit or regulatory validation of the overall model development, testing and validation process.

Model Validation

Model validation process intends to verify whether the models performances are consistent with the design objectives and intended business uses. Validation process if effective would help to ensure the soundness of the models, and in identifying potential limitations &assumptions and likely impacts thereof. Ideally, validation need be done by persons unconnected with model development or use and having no stake in whether a model is determined to be valid or not. Although there is no denial that some of the validation work may be best done by model developers and users, it is imperative that such validation work be subject to critical reappraisal by an independent agency to ensure proper validation. Validation activities should be an ongoing exercise after a model is put to actual use for tracking and identifying known and unknown model limitations respectively. Validation should ensure that judgment exercised in model design and construction is well informed, carefully considered, and consistent with published research and with sound industry practice. Validation process appraise the conceptual soundness of the model design. This among others is based on assessment of quality of the model design and construction.

Ongoing Monitoring, an important component of the validation process, is intended to ensure appropriate implementation and that the models being used have been performing as intended. It is important check on an ongoing basis that the models in use are not beyond the original scope necessitating adjustment, redevelopment, or replacement on account of the happening changes in products, exposures, activities, clients, or market conditions.

The outcomes of the above validation process may point to substantive snag/ faults and imprecisions in model development or outcomes which are consistently lying beyond the acceptable pre- determined threshold /limits. In such circumstances the models should be subjected to adjustment, recalibration, or redevelopment as would considered appropriate. At times, banking organizations may have a limited ability to use key model validation tools for various reasons, such as lack of data or of price observability. In those cases, even more attention should be paid to the model's limitations when considering the appropriateness of model usage, and senior management should be fully informed of those limitations when using the models for decision-making. Generally, senior

management should ensure that appropriate mitigating steps are taken in light of identified model limitations, which can include adjustments to model output, restrictions on model use, reliance on other models or approaches, or other compensating controls.

Comparing model outputs with actual outcomes forms another important part of validation process. Back-testing technique may be used for the purpose. Back-testing involves the comparison of actual outcomes with model forecasts tested on sample points not used in model estimation/development.

Three essential elements of an effective validation framework as recommended by Fed are as under:

- At model development stage, before the model is put to actual use, it must be tested. Its effectiveness must be established through prototyping, benchmarking and/or piloting.
- While the model is in use the reality being intended to be modelled may change, or assumptions might require modifications or refinement. There must be some yardstick to compare the results. This may appropriately be a defined standard, or at least a qualitative review of trends.
- Predicted outcomes must be compared to actual results. This would point to the acceptability of the model within acceptable margin of error. Even back-testing might be the better option.

Based on the foregoing it may be summarized that the focus of model validation process need be the undernoted model elements:

- Theoretical premise of the model.
- Documentation of its applicability.
- Model documentation.
- Modalities of model implementation in production (including protection from unauthorized change).
- Accuracy, authenticity, and consistency of input data.
- Assumptions regarding anticipated future influencers of results.
- Outputs created by the model.

Governance, Policies, and Controls

A framework of strong governance over the model risk management process is of primary importance for its effectiveness. Strong governance through defined policies of relevance to risk management activities provides explicit support and structure to risk management functions. The policies, among others, should relate to modalities of allocation of resources, and mechanisms for exercising checks to ensure that policies and procedures are carried out consistent with laid down policies. Meticulously detailed documentation of models development and their validation is a desirable attribute/feature of strong governance framework. The details should be sufficient enough for parties unfamiliar with a model to appreciate how the model works, as also its limitations and key underlying assumptions.

Model risk governance is delivered at the highest level by the board of directors and senior management setting out an organization-wide approach to model risk management. Board members should ensure that the level of model risk is within their tolerance. Internal audit function is expected to provide a sort of assurance to the Board as to the overall adequacy and efficacy of the model risk management framework in place in addressing model risk for individual models and in the aggregate consistent with the model risk appetite as fixed by the Board. Policies/procedures and underlying risk management principles should be consistent with the extant and relevant regulatory supervisory guidance.

Conclusion

Reliance of financial institutions on credit, market, and behavioural models is significant. Greater reliance on models, increasing regulatory concern over risks inherent in use of models, and talent scarcity is driving banks toward a holistic model risk management organization that is both more effective and value-centric Consequently model risk management has emerged as a core component of risk management as also towards attainment of operational efficiency. Increasingly larger number of models are being used by entities exploring ever-widening scope of model application in decision making. More complex models are being developed leveraging advanced-analytics techniques, (viz., artificial intelligence, machine learning) to attain higher performance standards. The types of models seen to proliferate are those developed to meet regulatory requirements, viz., capital allocation and stress testing. Big data and advanced analytics are facilitating building of more sophisticated models in new areas viz., customer relationship management or anti-money laundering and fraud detection.

Organizations should focus attention to the potential adverse consequences and impact (including financial loss) of model-based business decisions. Misunderstanding or misuse of models entails significant risks to entities, their customers, and the regulators' objectives, besides accentuating risks to financial stability. For the models which are misunderstood, inappropriate, incorrect, or misused entities should address those consequences through active model risk management. The important aspects of an effective model risk management system include robust model

development, implementation, and use; effective validation; and sound governance, policies, and controls.

Supervisors all over world are unanimous that greater controls need be exercised over application of specific requirements for model risk management on banks and insurers.

One cardinal principle for managing model risk is "effective challenge" of models. Incentives to pose effective challenges to models would predominate when impermeable separation between challenge and the model development process would persist. Competence is a key to effectiveness since technical knowledge and modelling skills are required to conduct appropriate appraisal and critique. Challenge may fail to be effective in the absence of adequate and explicit influencing authority and stature to ensure that actions are taken to address model issues. Such influence would be effective when the commitment and support from the top are unwavering and conducive work culture prevails.

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Future of Banking in India

Shri Sudhakar Kulkarni
Certified Financial Planner

The banking sector in India has been changing very fast since recent past, and same will be continued in future too. This is mainly due to pivotal role of technology such as Artificial Intelligence (AI), Machine Learning (ML), Block -Chain, Cloud Computing and Cyber Securities issues and Government Initiatives from time to time.

In recently held FIBAC-2023 conference which was jointly organised by FICCI and IBA RBI Dy Governor M. Rajeshwar Rao said," In the newer paradigm, the markets are likely to become central point for intermediation where banks may become but one amongst the host of other entities interacting in the market place. The traditional banking business model needs to pivot to address the evolving paradigm."

According to the report 'FinTech & Digital Banking 2025' (Asia Pacific) by Backbase and IDC, 48% Banks in Asia Pacific (APAC)will leverage AI/ML by 2025. 60% of banks in APAC are shaping up their ecosystem by integrating FinTech solutions from cloud marketplaces.

In future Indian Banking will be technology driven having main focus on Financial Inclusion, Customer satisfaction and sustainability.

Future of Indian Banking will rest on following pillars

a) **Technology Driven banks**: Banks will have to embrace the emerging technologies and remain flexible to adopt evolving business models. AI/ML/Block chain /Cloud Computing will play pivotal role in future banking. With AI/ML/Block chain /Cloud Computing in place banks will be in position to cater the services suited to individual which will give exclusiveness feeling to customer, also will be in position to provide new products and services to customer. With these tools at hands decision making will be faster and near accurate. Sourcing the data, interpreting the data, protecting the data will be one of the key functions in banks. Proper data management will help to manage all types of risk associated with banking business.

b) **Hyper-personalization of Banks:** Banking in future will be Hyper-personalized, which means banks may shift from traditional banking to Hyper-personalized embedded banking. In future banking may cease to be a separate service. Instead, banking may get embedded in all products and services which customer desires to avail. This will be possible in collaboration with Fin Tech and goods and service provider. For example, you want to book car and you log in to dealer's website/app, which is integrated with bank's app or Fin Tech platform, moment you fill your required KYC details your loan eligibility will be automatically calculated using your consent to pull your financial and non-financial data through account aggregator and loan amount will get disbursed in few minutes.

c) **Customer Segmentation**: Currently banks are working on different business segments and accordingly specific vertical is taking care of specific business. However now this business approach will get shifted to customer segment approach and accordingly specific vertical will be created to cater the needs of specific segment of customers. The segments can be HNI, Sr Citizens, woman, salaried persons, self-employed persons (like Doctors, Architects, Lawyers etc), MSMEs, Corporates, small vendors. A vertical created for specific segment will take are all financial needs of customer from this segment.AI and ML will be very useful for this segmentation banking.

d) **Mobile Banking**: With ever increasing use of smartphones by common man mobile banking is getting popular and moderately educated people are using mobile banking for their day-to-day banking transactions such as fund transfer, bill payments, various bookings, UPI is the main game changer in mobile banking. With this branch banking will lose its shine.

e) **Financial Inclusion**: Technology driven banking will further increase the financial inclusion, Payment Banks and Small Finance Banks will play major role in Financial Inclusion. Basic financial services will be provided in every nook and corner of the country.

f) **Green Banking**: Environmental concerns will be taken seriously by banking sector. Indian banks will increasingly consider ESG (Environmental, Social, and Governance) factors in their decision-making processes. Green banking initiatives, like financing renewable energy projects and promoting sustainable practices. Recently SBI has came with Green Fix Deposit scheme.

g) **Cyber Security and Data Privacy**: With ever increasing use technologies cyber security has become the serious cause of concern for the banks and will remain in future too. Banks will have to put robust security systems in place so as to protect customer data and transactions. Rules and regulations will also be modified by regulators to ensure safety and security of customer transactions and data. RBI will make required regulatory frame work which will accommodate digital banking and Fin Tech solutions so as to ensure financial stability and consumer protection.

h) **Customer Behaviour**: Customers are likely to shift their preference from passive banking products to some complex and market linked products. These financial products are likely to give more returns to customers which in turn create threat to deposit growth. Banks will need to focus their attention on CASA and increase the share of CASA in total liabilities.

i) **Hiring and retention of talent in the organization:** Increasing reliance on various technologies will create number issues related day to day operations, to handle these issues correctly and timely technically expert and experienced man power will have to be recruited at the same time existing man power needs to be upskilled. Talent retention will be a herculean task for the banks in future. Frequent hiring will have to be done so as to fill the gap.

j) **Mergers/Bailouts:** Numbers of bank mergers and bailouts are likely to take place in future which could be threat and opportunity too. Few more mergers in public sector banks are likely to take place. Similarly, week small finance banks (SFBs) will get merged with stronger one. Strong Small Finance Bank will try to convert into universal banking. Cooperative banking likely to get stronger due to creation of separate ministry for cooperative sector. Small cooperative banks are likely to get merged with strong cooperative banks.

k) **Impact of NBFCs and P2P platforms**: NBFCs and P2P platforms will give tough competition to banks for retail business. There will be marginal difference between banks and NBFCs. Small Finance Banks will mainly compete with Cooperative banks.

In conclusion we can say Indian Banking industry has tremendous growth potential in days to come and will have its impact on Global Banking.

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Legal Audit
(Credit Risk Mitigation Tool)

Er. Sunil Dasari
Senior Manager
Bank of Maharashtra
Pune

Banks have developed Loan Documentation for various Credit/Loan products, including the Agricultural Segment, Personal / Retail Segment, and SME Segment, among others. In the case of significant Loan Amounts, it is crucial to acquire meticulously prepared Loan Documents, specifically Drafted and Reviewed by the "Legal Officers of the Bank", taking into account the Complex nature of the Loans and Advances granted.

To ensure the avoidance of any potential conflicts of interest, it is of utmost importance that Audits (**Legal Audit**) are exclusively carried out on accounts that have **no prior affiliation** with the Auditor or the Auditor firm, which encompasses the provision of Legal Opinions or the drafting of legal documents.

For the purpose of Loan Agreements, Banks obtain **General Security Documents**, which encompass the Agreement for Overall Limits of various Loans with the Bank like (Examples):

- ✓ The Agreement for Hypothecation of Goods and Assets.
- ✓ The Agreement for the Pledge of Goods and Assets.
- ✓ The Deed of Guarantee for Overall Limits.
- ✓ The Letter regarding the Grant of Individual Limits within the Overall Limits.
- ✓ The Revival Letters.
- ✓ The Deed of English Mortgage for Term Loans.
- ✓ The Deed of further Charge for the Increase in Term Loans.
- ✓ The Memorandum of Deposit for the Creation of Charges for Term Loans or Overall Limits.
- ✓ The Memorandum of Deposit for the Creation of a Further Charge for Term Loans or Overall Limits where the Initial Charge is established through the Deposit of Title Deeds.
- ✓ The Memorandum of Deposit for the Creation of a Further Charge for Term Loans or Overall Limits where the Initial Charge is established through a Deed of Mortgage.
- ✓ The Supplemental Agreement of Loan for the Increase in Overall Limits.
- ✓ The Supplemental Agreement of Hypothecation of Goods and Assets for the increase in the Overall Limit.
- ✓ The Supplemental Agreement of Pledge of Goods and Assets for the increase in the Overall Limit, and
- ✓ The Supplemental Deed of Guarantee for the increase in the Overall Limit etc., etc.

Banks have produced different types of Loan Documentation for a Variety of Credit Products aimed at Sectors / Segments of Loans like as Agriculture, Personal / Retail, and SME. In cases where substantial Loan Amounts are involved, prudently created loan documents, which have been thoroughly examined by the legal officers of the Bank, are necessary.

To conduct a comprehensive Legal Audit, the Legal Auditor must carefully examine the **Title Documents of Mortgages**. In addition to the Legal Auditor must also refer to the "Title Investigation Report" issued by the Respective Banks for further guidance.

The Legal Auditor is responsible for scrutinizing all available documents, information, and details. They must also cross-check and verify the information with various authorities such as the **Sub-registrar or Registrar Office, Revenue Office, and Others**. This is done to ensure the Authenticity of the Security Documents held by the Bank.

The Legal Auditor must verify the **Validity, Sufficiency, and Enforceability** of the Mortgage or any other security interest by examining all relevant documents.

≈ The Ideal Duration for **conducting a search** for Title and Encumbrances is a period of **30 Years**. However, if there are Unavoidable Circumstances preventing this, a search of at least **13 years may be sufficient**. It should be noted that the Adequacy of a 13-year search depends on the specific facts and circumstances of the matter, and whether it establishes a clear and marketable title to the property. If the Legal Auditor is **not fully satisfied** with the title after scrutinizing a 13-year search, they should conduct further searches for as long as necessary to establish a clear and marketable title.

≈ Legal Opinions obtained should be presented in the **Bank's Standard Format**, which requires a **Search** covering a period of not less than 30 Years. The opinion should also certify compliance with **SARFAESI Regulations**, among other requirements.

≈ The Legal Auditor must thoroughly Examine and Address the **Root and Chain of Title Deeds** in the Legal Opinion.

≈ The Legal Auditor **Must Explicitly State** the Type of Documents deposited for the Creation of the Mortgage, whether they are Original, Certified Copies, Photostat Copies, **Coloured Xerox Copies**, etc.

≈ All Title Documents held on record **Should be Originals**. In cases where Certified Copies or Photostat Copies of the Title or Parent Documents are held, the Legal Auditor **Must Scrutinize**:
  - ✓ The **reasons for the Non-availability** of the Original Parent Documents.
  - ✓ The sufficiency of the reasons for **not insisting on the Original Documents**.
  - ✓ The Compliance with Guidelines such as obtaining **Affidavits or Indemnities**, availability of FIR, Paper Publication or Public Notice, etc.
  - ✓ The **Validity and Enforceability** of the Mortgage, as well as the extent and Scope of any Exposure to Risk for the Bank, must be Assessed by the Legal Auditor.
  - ✓ The Legal Auditor must personally Examine the **Original Documents**, Scrutinize their Contents, and **Certify the Authenticity** of the Title Deeds.

≈ The Enforceability of an **EM (Encumbrance Mortgage)** on Agricultural Land for financing a Non-agricultural Project is subject to the Laws of the State. The Legal Auditor must review the relevant State Law and provide an Opinion on this aspect.

≈ It is necessary to determine whether the **Mortgages of all the Properties** owned by the Borrower / Guarantors have been established in accordance with the Terms of the Sanction, unless specific Approval / Time frame has been granted to create the Mortgage at a later date.

≈ Auditor must be Verified if the Properties that have been Mortgaged (Properly Listed) are supported by "**Board Resolutions**" of the Borrower / Corporate Guarantors, where Applicable (**In Case of Corporate Loans**). List of Security Documents in General for Various Loans of Banks:
  - ✓ Agreement of Loan for the Comprehensive Loans / Advances with the Bank.
  - ✓ Agreement of Hypothecation of Commodities and Assets.
  - ✓ Agreement of Pledge of Commodities and Assets.
  - ✓ Deed of Assurance of Comprehensive Boundaries.
  - ✓ Letter concerning the bestowal of Personal Boundaries within the Comprehensive Boundaries.
  - ✓ Rejuvenation Letter.
  - ✓ Deed of English Mortgage for Extended Credit.
  - ✓ Deed of Additional Responsibility for Augmentation in Extended Credit.
  - ✓ Memorandum of Deposit for Establishment of Obligations for Extended Credit / Comprehensive Limit.
  - ✓ Memorandum of Deposit for Establishment of Additional Responsibility for Extended Credit / Comprehensive Limit where the Original Responsibility is established by means of Mortgage through Deposit of Title Deeds.
  - ✓ Memorandum of Deposit for Establishment of Additional Responsibility for Extended Credit / Comprehensive Limit where the Original Responsibility is established by means of Mortgage Deed.
  - ✓ Supplemental Agreement of Loan for Augmentation in Comprehensive Limit.

- ✓ Supplemental Agreement of Hypothecation of Commodities and Assets for Augmentation in the Comprehensive Limit.
- ✓ Supplemental Agreement of Pledge of Commodities and Assets for Augmentation in the Comprehensive Limit.
- ✓ Supplemental Deed of Assurance for Augmentation in the Comprehensive Limit.

≈ Regarding the Mortgage of "Lease Hold" Properties (excluding Leases from Government / State Industrial Development Corporations, etc.), it is important to ascertain whether the **Absolute Owner** has also created a Mortgage for the **Absolute Rights of the Property**.

≈ In cases where **Equitable Mortgages (EM)** are created at **Other Branches** of Banks, Copies of the **Recital** (Properly Certified) should be maintained as per the prescribed guidelines.

≈ When the Mortgage includes Exposure to other Banks (Under **Multiple Banking Arrangements** or Consortium), it is **Crucial to Accurately** document the Total Exposure covered by the Mortgage, as well as the Nature and Rank of the Charge (First/Second), in the **Recital / Memorandum of Entry (MOE)**.

≈ Obtaining "**No Objection Certificates (NOC)**" / "Noting of Bank's Interest" (where applicable) from the Lessor (Government Agency, Co-operative Societies, etc.) is essential and should be kept on record in accordance with the Lease Terms.

≈ The **Area of Land, Boundaries**, and Location stated in the proposal should correspond with the Title Deed, EM Register, EM Confirmations, etc.

≈ **Receiving Confirmations** for the Creation / Extension of the Mortgage is necessary, and the required **Form-A** for Creation and **Form-B** for Extension of EM should be held.

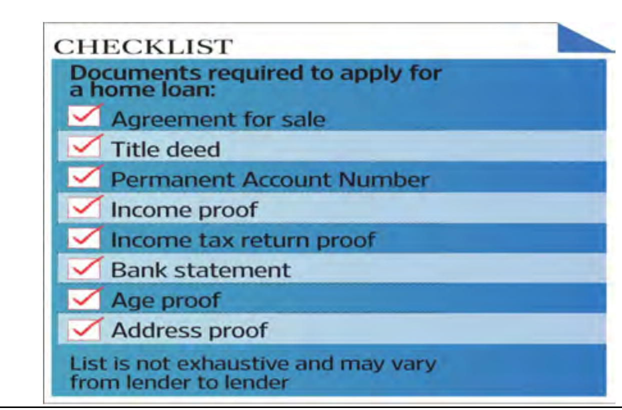
≈ If applicable, it is important to Register Equitable Mortgages with the **Registrar of Assurance**.

≈ If applicable, it is crucial to ensure that the Memorandum of Deposit of Title Deeds is **Appropriately Stamped**.

≈ Obtaining **Certified Copies of the Recital** / Memorandum of Entry (MOE) from the other Branch, other Bank / Financial Institution, Security Trustee where the **Original EM** has been created is necessary.

≈ In the case of a Mortgage Created over the **Assets of a Charitable Trust**, Permission from the Charity Commissioner should be Sought.

≈ When Applicable, the Mortgage/Security Interest should be Registered with the **Central Electronic Registry**.



≈ Documents such as the **Latest Non-encumbrance Certificate**, Tax Receipts, etc. should be obtained as per the prescribed **Title Investigation Reports (TIR)**.

- When Agricultural Lands are offered as Security, it is important to specify whether there are any **Restrictions or Conversions** under Local Laws for the creation and **enforceability** of the Mortgage of Agricultural Lands.
- In the case of Lending by Consortium Members / Multiple Lenders and/or Extension of Mortgages, a Thorough Verification of the Priority of Charges Existing in favour of other Charge Holders and any Intervening Charges created must be conducted.
- The Bank should be informed about any **Restrictions/Limitations/Impediments** and the necessary remedial measures. When Bank Participates as a Member of a Consortium of Lenders, the Leader of the Consortium obtains Joint Consortium Documents.
- The following are the **Examples** of Consortium Documents:
  - ✓ Working Capital Consortium Agreement.
  - ✓ Joint Deed of Hypothecation.
  - ✓ Inter se Agreement among Consortium Documentation.
  - ✓ Deed of Guarantee.
  - ✓ Revival Letter.
  - ✓ Letter of undertaking for creating a second charge on fixed assets.
  - ✓ Letter of authority authorizing the lead bank to make the first disbursement on behalf of other consortium member banks.
  - ✓ Letter of Authority to Lead Bank.
  - ✓ Letter Authority by one Bank to another.
  - ✓ Resolution to be passed by the borrower's board of directors.
  - ✓ Resolution to be Passed by "B" Bank's Board ("B" Bank being the Bank having the Second large Share).
  - ✓ Resolution to be Passed by the Board of Bank, C, D, & E (Who are other Banks of the Consortium).
- The Auditor must provide comments on Whether all the Legal Formalities / Procedures required under Applicable Laws have been complied with for the **Creation of a Valid Mortgage** in favour of the Bank. If there are any legal impediments / restrictions, guidance should be provided on whether such impediments can be remedied and the procedure to be followed.

- Ensure that the Audit is **only conducted for Accounts where the Auditor or Auditor firm has not been associated with** the Audited Account in any manner in the Past, such as Furnishing Legal Opinion, Drafting of Documents, etc., to Avoid any Conflict of Interest.

To Conclude, A financial institution derives profit from the interest paid by the borrower when it grants a loan. Due to the inherent risk involved in this transaction, banks must take measures to protect their interests. **This involves the importance of loan enforcement and the necessary paperwork i.e., Documentation**. Additional knowledge about Loan Documentation is recommended. Loan documentation constitutes a vital component of the lending process. It entails the formalization of the loan's terms and conditions in a legally binding contract between the bank and the borrower. Different forms of loan documentation exist, each with its own specific requirements. Among them, the promissory note stands as the most commonly used form. Within this agreement, the loan amount, interest rate, repayment terms, and penalties for late payment are clearly stated. By signing this contract, the borrower commits to fulfilling their debt obligations, and this commitment is legally enforceable. Equally important is the loan agreement, which outlines the terms of the loan, including the interest rate, repayment plan, and collateral. This document also serves to safeguard the bank's interests through acceleration and default clauses. Loan documentation plays a crucial role in protecting the bank's interests in the event of a borrower default. With proper Documentation / Paperwork, the bank can exercise its rights and expedite the recovery of its funds.

Applying Human Body's Supply Chain Mechanism to Banking Operations

Dr. Jyotsna Haran
Visiting Professor in Mumbai

Abstract:
We explore the remarkable parallels between the biological processes within the human body and the principles of a supply chain. How it can be a guide line to banks and may be a torch to banks for smooth functioning of the areas like financial inclusion. One can draw parallels between the complex supply chain system inherent in the human body and the intricacies of the banking system. Both systems, though seemingly unlike, share fundamental principles of organization, distribution, and regulation, contributing to their optimal functionality.

The Intricate Supply Chain System of the Human Body

The human body is a marvel of intricate design and functionality, operating much like a sophisticated supply chain system. From the intake of raw materials to the production of energy and the removal of waste, the body's supply chain ensures the continuous and optimal functioning of its various systems. In this article, we explore the remarkable parallels between the biological processes within the human body and the principles of a supply chain. How can it be a guide line to banks and may be a torch to banks for smooth functioning of the areas like financial inclusion?

- **Raw Material Intake - Ingestion and Digestion:** The supply chain begins with the intake of raw materials. In the human body, this process occurs through the ingestion of food. The digestive system acts as the processing center, breaking down food into essential nutrients that serve as the building blocks for the body's cells and tissues.
- **Transportation - Circulatory System:** The circulatory system acts as the transportation network, akin to the logistics component of a supply chain. The heart pumps blood, delivering oxygen and nutrients obtained from digested food to cells throughout the body. This efficient transport system ensures a steady supply of resources to every part of the organism.
- **Manufacturing - Cellular Processes:** At the cellular level, the body engages in intricate manufacturing processes. Just as a factory transforms raw materials into finished products, cells use nutrients to produce energy through cellular respiration, synthesize proteins, and carry out various specialized functions crucial for overall functionality.
- **Quality Control - Immune System:** The immune system functions as the body's quality control mechanism. It identifies and eliminates pathogens or abnormal cells, ensuring the integrity of the body's internal environment. This process is essential for maintaining the health of the entire system.
- **Energy Distribution - Endocrine System:** Similar to the distribution of energy in a supply chain, the endocrine system regulates the production and distribution of hormones. These chemical messengers coordinate various physiological processes, including metabolism, growth, and stress responses.
- **Waste Management - Excretory System:** Just as a supply chain must manage waste generated during production, the body has an excretory system responsible for eliminating metabolic waste products. The kidneys filter blood, removing excess water and waste materials to maintain a balanced internal environment.
- **Communication - Nervous System:** The nervous system serves as the communication network, facilitating rapid transmission of signals between cells, tissues, and organs. This communication

network ensures coordinated responses to external stimuli and internal changes.

- **Inventory Management - Storage Systems:** The body includes storage systems for essential resources. For instance, the skeletal system acts as a mineral reservoir, releasing calcium into the bloodstream when needed. Adipose tissue serves as a storage site for energy reserves.
- **Adaptability - Homeostasis:** Like an agile supply chain that adapts to market demands, the body maintains homeostasis—a state of internal balance. Various regulatory mechanisms ensure that physiological parameters, such as temperature and blood sugar levels, remain within optimal ranges.

The Intricacies of the Human Body's Supply Chain and the Banking System

One can draw parallels between the complex supply chain system inherent in the human body and the intricacies of the banking system. Both systems, though seemingly unlike, share fundamental principles of organization, distribution, and regulation, contributing to their optimal functionality. By recognizing these parallels, one can gain a deeper understanding of the sophisticated mechanisms that drive both systems, emphasizing the interconnected nature of biological and financial networks. While vastly different in their contexts, these systems exemplify the universal principles of organization, distribution, and regulation essential for optimal functionality.

The human body's intricate supply chain mechanism serves as a remarkable model for efficiency, resilience, and adaptability. Banks, in their quest for continuous improvement, can draw valuable lessons from the biological processes that sustain life. How banks can learn from the human body's supply chain mechanism to enhance their operations and adapt to the dynamic financial landscape?

- **Ingestion and Raw Material Intake:**
  - **Human Body:** The process begins with the ingestion of food, which parallels the intake of raw materials. The digestive system breaks down food into essential nutrients.
  - **Indian Banking System:** The banking system acquires 'raw materials' in the form of deposits and investments. Just as the digestive system processes food, banks manage and allocate these resources to various financial mechanisms.

- **Transportation and Circulatory System:**
  - **Human Body:** The circulatory system transports oxygen and nutrients to cells, much like a logistical supply chain network.
  - **Indian Banking System:** Financial transactions flow through the banking system, facilitated by digital networks and physical branches, ensuring the efficient movement of funds.

- **Manufacturing and Cellular Processes:**
  - **Human Body:** Cellular processes within the body manufacture energy through respiration and synthesize proteins, similar to manufacturing in a supply chain.
  - **Indian Banking System:** Banking institutions engage in financial activities, such as lending and investment, akin to the manufacturing processes in a supply chain, creating value and generating returns.

- **Quality Control and Immune System:**
  - **Human Body:** The immune system acts as quality control, identifying and eliminating threats to maintain the body's integrity.
  - **Indian Banking System:** Regulatory bodies and compliance mechanisms serve as quality control, ensuring adherence to financial regulations and safeguarding the stability of the banking system.

- **Energy Distribution and Endocrine System:**
  - **Human Body:** The endocrine system regulates energy distribution through hormones, coordinating various physiological processes.
  - **Indian Banking System:** The endocrine system's counterpart is the financial regulatory framework, which governs the distribution and utilization of financial resources within the banking system.

- **Waste Management and Excretory System:**
  - **Human Body:** The excretory system eliminates waste, balancing internal environments.
  - **Indian Banking System:** Financial institutions manage 'waste' through risk management strategies and the disposal of non-performing assets, maintaining a healthy economic environment.

- **Communication and Nervous System:**
  - **Human Body:** The nervous system facilitates communication between cells and organs, ensuring rapid responses to stimuli.
  - **Indian Banking System:** Communication networks, both digital and physical, enable rapid information exchange within the banking sector, fostering coordinated responses to market changes.

- **Inventory Management and Storage Systems:**
  - **Human Body:** Storage systems like the skeletal and adipose tissues hold essential resources for future use.
  - **Indian Banking System:** Banks manage reserves and investments, acting as storage systems that contribute to the stability of the financial ecosystem.

- **Adaptability and Homeostasis:**
- **Human Body:** Homeostasis maintains internal balance, adapting to changes in the environment.
- **Indian Banking System:** Adaptability is evident in the financial sector's response to economic fluctuations, policy changes, and technological advancements.

A Guiding Light for Banks in Modern Finance

As banks navigate the complexities of the financial landscape, learning from the human body's supply chain mechanism can provide valuable insights. By adopting principles of efficiency, adaptability, and holistic management, banks can enhance their operations, better serve their customers, and thrive in an ever-evolving industry. Just as the human body sustains life through its supply chain, banks can ensure their longevity and success by embracing the wisdom inherent in nature.

- **Efficient Resource Allocation:**
  - *Lesson from the Human Body:* The body efficiently allocates resources to where they are needed, ensuring each cell receives essential nutrients.
  - *Application in Banking:* Banks can optimize resource allocation by identifying key areas of operation and strategically allocating capital, talent, and technology to enhance efficiency.

- **Adaptive Response to Changes:**
  - *Lesson from the Human Body:* The body exhibits adaptability, responding to external stimuli and internal changes to maintain homeostasis.
  - *Application in Banking:* Banks should foster adaptability by embracing technological advancements, regulatory changes, and shifts in consumer behavior to remain agile in a dynamic financial landscape.

- **Robust Risk Management:**
  - *Lesson from the Human Body:* The immune system acts as a robust risk management mechanism, identifying and mitigating threats to maintain overall health.
  - *Application in Banking:* Banks can strengthen risk management by proactively identifying potential risks, implementing robust compliance measures, and continuously monitoring their risk exposure.

- **Integrated Communication Networks:**
  - *Lesson from the Human Body:* The nervous system enables seamless communication between cells, ensuring coordinated responses to stimuli.
  - *Application in Banking:* Banks can improve communication networks internally and externally, fostering collaboration between departments, embracing digital communication tools, and enhancing customer interaction for a more unified approach.

- **Continuous Monitoring and Feedback:**
  - *Lesson from the Human Body:* The body continuously monitors internal conditions, providing feedback loops that regulate various physiological processes.
  - *Application in Banking:* Banks should implement continuous monitoring systems to track key performance indicators, customer satisfaction, and market trends, allowing for timely adjustments and improvements.

- **Diversity for Resilience:**
  - *Lesson from the Human Body:* The body's diverse cell types contribute to its resilience, ensuring functionality even in the face of challenges.
  - *Application in Banking:* Banks should promote diversity in their workforce, management, and service offerings to enhance resilience and adaptability to a variety of market conditions.

- **Holistic Customer-Centric Approach:**
  - *Lesson from the Human Body:* The body prioritizes overall health, ensuring the well-being of all its parts for holistic functionality.
  - *Application in Banking:* Banks should adopt a customer-centric approach, prioritizing the overall financial health of their clients, offering personalized services, and creating a positive banking experience.

- **Strategic Investment in Technology:**
  - *Lesson from the Human Body:* Cellular processes efficiently use energy for various functions, emphasizing the strategic use of resources.
  - *Application in Banking:* Banks should strategically invest in technology, focusing on innovations that enhance operational efficiency, cyber security, and customer experience.

In the dynamic world of modern finance, banks are increasingly turning to the intricacies of the human body mechanism as a source of inspiration. The human body, with its highly evolved and efficient processes, serves as a guide for banks seeking to optimize operations, enhance adaptability, and foster resilience in an ever-changing financial landscape. How banks explore key lessons they can glean from the remarkable mechanism of the human body to navigate challenges and elevate their performance. As blood reaches to every part of the body similarly the banking system beneficiaries should be mandatory to each and every part of the population.

Empowering Communities: A Roadmap to Financial Inclusion in Banking

Financial inclusion stands at the forefront of a progressive and equitable banking system. As technology advances and societal expectations evolve, the imperative to provide accessible financial services to all segments of the population becomes increasingly crucial. Here we explore the multifaceted dimensions of financial inclusion in banking, emphasizing its significance, challenges, and potential solutions.

Can we visualize the extension of human body supply chain mechanism to the banking system supply chain so as to dream smooth deepening of financial inclusion? Of course it appears to be difficult but can be made possible by formulating proper strategy and then implementing and modifications.

- **Defining Financial Inclusion:**
  - Financial inclusion goes beyond the provision of basic banking services; it encapsulates the accessibility, affordability, and usability of financial products and services for all members of society. This inclusive approach aims to empower individuals, particularly those in underserved or marginalized communities, by providing them with the tools to participate in the formal financial system.

- **The Significance of Financial Inclusion:**
  - *Economic Empowerment:* Financial inclusion serves as a catalyst for economic empowerment, enabling individuals to save, invest, and accumulate assets. This, in turn, contributes to poverty reduction and economic growth.
  - *Social Mobility:* Access to financial services facilitates social mobility by providing opportunities for education, entrepreneurship, and homeownership, breaking the cycle of intergenerational poverty.
  - *Stability and Resilience:* A financially inclusive society is more stable and resilient, as individuals have the means to weather economic shocks, reducing vulnerability to financial crises.

- **Challenges Hindering Financial Inclusion:**
  - *Limited Access to Banking Infrastructure:* In remote or underserved areas, physical access to banking institutions may be limited, impeding the ability of individuals to open accounts or access financial services.
  - *Lack of Financial Literacy:* Many individuals, especially in marginalized communities, may lack the necessary financial knowledge to make informed decisions, hindering their ability to fully benefit from available services.
  - *Inadequate Identification Systems:* In some regions, the absence of reliable identification systems poses a challenge, as it complicates the process of verifying individuals' identities for account opening and financial transactions.

- **Technological Solutions for Financial Inclusion:**
  - *Mobile Banking and Digital Wallets:* Leveraging mobile technology enables individuals to access banking services without the need for physical branches. Mobile banking and digital wallets facilitate secure transactions, even in areas with limited banking infrastructure.
  - *Biometric Authentication:* Implementing biometric authentication, such as fingerprint or iris scanning, enhances security and simplifies the identification process, addressing concerns related to the lack of formal identification.
  - *Block chain for Inclusive Banking Platforms:* Block chain technology can provide a secure and transparent framework for financial transactions, particularly in regions where trust in traditional banking systems is low.

- **Policy and Regulatory Measures:**
  - *Promoting Financial Literacy:* Governments and financial institutions can collaborate to implement educational programs that enhance financial literacy, empowering individuals to make informed decisions about their finances.
  - *Incentivizing Banks for Inclusive Practices:* Regulatory bodies can offer

incentives to banks that actively engage in financial inclusion initiatives, encouraging them to extend their services to underserved populations.
- *Creating Supportive Regulatory Environments:* Policymakers can streamline regulations to foster innovation in the financial sector, making it easier for new technologies and inclusive banking models to emerge.

- **Public-Private Partnerships:**
  - *Collaboration for Impact:* Public-private partnerships can amplify the impact of financial inclusion initiatives. By combining the resources and expertise of both sectors, comprehensive solutions can be developed and implemented.
  - *Infrastructure Development:* Collaborative efforts can focus on improving banking infrastructure in underserved areas, ensuring that individuals have convenient access to financial services.

- **Measuring Impact and Progress:**
  - *Data Analytics:* Banks and policymakers can leverage data analytics to assess the impact of financial inclusion initiatives. Analyzing trends and outcomes helps refine strategies and tailor services to better meet the needs of diverse communities.
  - *Monitoring Key Performance Indicators:* Establishing and monitoring key performance indicators (KPIs) related to financial inclusion allows for the quantifiable evaluation of progress and the effectiveness of implemented measures.

Financial inclusion is not just a strategic imperative for banks; it is a societal responsibility that has the potential to transform lives and uplift communities. By leveraging technological innovations, implementing supportive policies, and fostering collaboration, banks can pave the way for a more inclusive financial landscape. The journey toward financial inclusion is dynamic, requiring a commitment to continuous improvement and a vision of creating a banking ecosystem that truly serves the needs of all individuals, irrespective of their socio-economic background.

To sum up

This paper is an attempt to appreciate and learn from human body natural working of supply system and how can we learn the automation system and strengthen the banking system, this in turn will have ripple down effects for the economy as a whole.

Financing to Farmer Producer Organizations (FPOs) by Banks

Dr. P. Sai Sudha
Freelancer
Hyderabad

Collectivizing small and marginal farmers into Producer Organizations (POs) has emerged as a promising solution to address the various challenges faced by these farmers. By coming together in these organizations, farmers are able to overcome the limitations imposed by their small individual farms and leverage their collective strength and bargaining power. This enables them to access both financial and non-financial resources, such as inputs, services, and technologies, at a lower cost. Additionally, they are able to tap into high-value markets and establish partnerships with private entities on more equitable terms. Moreover, as the fragmentation of land holdings due to generational transfer continues, FPOs provide a means of aggregation regardless of individual land titles. Through collective planning for production, procurement, and marketing, FPOs are able to enhance the value of their members' produce. The success of FPOs at both the international and national levels highlight the need for policy support to further empower these member-based farmer bodies in the marketplace, reduce risks, and enable them to move up the horticulture value chain.

In recent years, there has been a growing recognition of the potential benefits of creating and strengthening FPOs as a means of improving the position of small and marginal farmers in the value chain.

Efforts have been made to break farmers' reliance on intermediaries and provide them with better access to markets for both inputs and outputs.

Various stakeholders, including the government, apex financial institutions like NABARD and financial institutions, have taken initiatives to support the growth of FPOs and help them become successful enterprises.

The promotion and strengthening of FPOs has been identified as a key strategy for achieving inclusive agricultural growth under the 12th Five Year Plan of the Government of India. In recent years, there has been a significant increase in the formation of FPOs, highlighting the need to address their access to credit. It is crucial to link FPOs with reliable and affordable sources of financing to meet their working capital, infrastructure development, and other financial needs.

As FPOs strive for sustainability, there is an urgent need to reorient the funding ecosystem to support these newly formed organizations at different stages as mentioned below:

≈ Incubation and Early Stage.
≈ Emerging and Growing Stage.
≈ Matured Stage (Business Expansion).

In each stage of the FPO, the financial requirements were found to vary. In the initial stages, the financial needs of the FPOs revolve around expenses such as mobilizing farmers, registration costs, operational and management costs, training, exposure visits, etc. Generally, these needs are met through grant support. As the FPOs progress into the emerging and growing stage, they require working capital to sustain their operations. Additionally, as the FPOs expand their businesses, they need term loans to establish processing units, sorting yards, storage facilities, transport infrastructure, and more.

Due to the rapid growth of FPOs, the issue of accessing credit and connecting FPOs with reliable and affordable sources of financing to meet their working capital, infrastructure development, and other needs has become crucial. As FPOs strive to achieve sustainability, there is an urgent need to reorient the funding ecosystem to support these newly formed FPOs based on the different stages of their life-cycles. These life-cycle stages can be broadly categorized into three phases, each with distinct and varying requirements, as depicted in the figure below.

1. **Incubation and Early Stage**: During this stage, the financial needs of FPOs primarily revolve around expenses such as mobilizing farmers, registration costs, operational and management costs, training, exposure visits, and more. Consequently, the agencies involved in promoting FPOs require grant support to establish FPOs and guide them through various systems and processes, particularly governance, for effective self-management. In the past, a few NGOs promoted FPOs to leverage scattered donor funding. However, in recent years, significant efforts have been made by apex government institutions, multilateral and bilateral organizations, and other players after the Small Farmers Agribusiness Consortium pushed to address the challenges faced by small farmers in terms of access to investment, technology, and markets. The aim is to act as a nodal agency that coordinates with state governments, civil society, private sector, financial institutions, resource persons, and other stakeholders to enhance the production, productivity, and profitability of small farmers.

NABARD has been financing FPOs since 2011 through the Producer Organisation Development Fund (PODF). Prior to the establishment of PODF, NABARD provided funding to producer collectives under the Umbrella Program for Natural Resources Management (UPNRM), which was bilaterally funded by KfW/GIZ (Kreditanstalt für Wiederaufbau /Gesellschaft für Internationale Zusammenarbeit) and NABARD.

Other donors in this area included the World Bank, Rabobank Foundation, Sir Ratan Tata Trust, Ford Foundation, HIVOS (Humanistisch Instituut voor Ontwikkelingssamenwerking, Humanist Institute for Development Cooperation), and many others. Despite the aforementioned initiatives providing grant support to incubate FPOs, many promoting institutions face challenges in strengthening the already established FPOs. Both the promoting institutions and the FPOs encounter various challenges include:

≈ Most projects funded by donors have a duration of 24 to 36 months. The experience of most promoting institutions indicates the necessity of providing handholding support to FPOs for a minimum of 5 to 7 years in order to initiate their business operations.

≈ At present, FPO promotion programs do not cover start-up risks. Unlike traditional livelihood projects, FPOs are business entities and are therefore susceptible to market factors and fluctuations.

≈ FPOs are unable to access international funds due to their lack of Foreign Contribution Regulation Act (FCRA) exemption, making promoting institutions crucial for fund support.

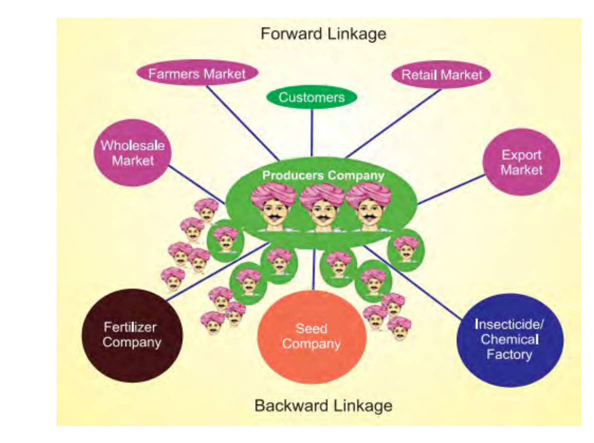
2. **Emerging and Growing Stage**: Once FPOs receive grant support from promoting institutions, there are **Three Ways** to raise funds for their working capital and investment needs:

    - Equity Financing.
    - Credit Capital, and
    - Debt Financing.

✓ **Equity Financing**: Due to the limited investment capacity of small and marginal farmers, individual farmers make limited contributions to raise the equity of FPOs, which often cannot sustain their operations. To augment the equity base of FPOs, the Union Budget for 2013-14 introduced major initiatives, providing matching equity grants. The scheme is known as the 'Equity Grant Fund', managed by SFAC (Small Farmers Agribusiness Consortium). Currently, the scheme applies to Farmer Producer Companies (FPCs). The Equity Grant Fund allows eligible FPCs to receive a grant equivalent to the equity contribution of their shareholder members, thereby enhancing the overall capital base of the FPC. The scheme supports nascent and emerging FPCs with paid-up capital not exceeding INR 30 lakh at the time of application.

✓ **Working Capital**: Once promotional grant support ends, promoting institutions face challenges in meeting the operational expenses of FPOs. In most cases, FPOs struggle to reach the break-even-point and achieve commercial viability. As FPOs begin early-stage business activities such as bulk purchasing of inputs, they require working capital. Although FPOs are expected to generate their own funds at this stage, it usually takes four to five years for them to stabilize their activities and be able to raise funds for ongoing operations. FPOs dealing with storable commodities like pulses and oilseeds stabilize faster compared to those dealing with perishables like fresh vegetables and fruits. It is possible to obtain credit capital from potential buyers who offer a grace period before payment is due or interest is charged. Additionally, producers who sell their produce to FPCs may provide credit periods if they are convinced of the soundness of the business idea. However, in practice, most FPOs struggle to secure such credit facilities. It is not surprising that the FPOs are unable to fully realize their potential without access to credit. In order to meet the credit needs of the FPOs, the Livelihood and Microfinance Promotion Fund (LAMP FUND) was established in 2001. This fund received a contribution of INR 20 lakhs from Indian Grameen Services, a BASIX group company. The implementation of the program involves creating an ecosystem that prepares the producer companies for credit readiness. As the FPOs progress from being start-up entities to more mature organizations, they become trade-ready and develop a track record to attract finance from formal financial institutions and commercial banks.

✓ **Matured Stage (Business Expansion)**: As FPOs aim to expand their businesses, they require finance to improve the quality of their products and services. This finance is needed along the entire value chain of the produce. For instance, FPOs dealing with pulses may require loans for small dal mills, while FPOs in cotton-growing areas may need financing for cotton ginning units. Similarly, FPOs involved in groundnut production may require decorticators, and so on. This will also serve as an incentive for innovation within the value chain by the FPOs and their farmer members. Term loans are necessary to build infrastructure that the FPOs wish to develop when they feel the need to establish their own facilities in order to move up the value chain. These term loans are typically used to set up processing units, processing/grading/sorting yards, storage godown, cold storage facilities, transport facilities, and more.



Currently, most formal financial institutions offer short-term loans in the form of crop loans to farmers and working capital limits for marketing crops. A few banks also provide term loans for agricultural investments.

However, when it comes to FPOs, it is essential that banks recognize the need for a combination of short-term working capital and term loans to enable FPOs to plan their business development activities. While some commercial banks do fund agribusiness companies for the procurement of raw materials, they rarely include FPOs in their funding.

In line with this, the Reserve Bank of India has included financing for FPOs up to ₹ 2 crores under Direct Agriculture Finance as part of the Priority Sector Lending (PSL). Additionally, loans up to ₹ 5 crores for FPCs are considered for inclusion under Indirect Agriculture Finance. The establishment of the Credit Guarantee Fund, as announced in the 2013-14 Union budget, is anticipated to offer Credit Guarantee Cover to eligible lending institutions. This will enable them to provide collateral-free credit to FPCs while minimizing lending risks in relation to loans that do not exceed ₹ 1 Crore. In order to promote Agro-processing, NABARD has created a fund of ₹ 2,000 crore to facilitate the availability of credit to designated Food Parks.

Furthermore, FPOs are also authorized to access loans from this fund for the establishment of designated Food Parks and the creation of individual Food/Agro-Processing units within these designated Food Parks.

To conclude, in India, Farmers Producers Organizations (FPOs) are regarded as one of the most prominent tools of intervention for improving the condition of farmers. Given that more than 85 percent of farmers are smallholders, it poses a significant challenge for them to access modern production technologies, obtain market information for their benefit, engage in transactions in input or output markets on their own terms, and ultimately maintain profitability in their farming endeavours. The collective efforts of farmers through FPOs contribute to the realization of economies of scale in various on-farm and off-farm activities across the three stages of pre-production, production, and post-production. Over the past decade, the Government of India has actively promoted the establishment of FPOs through different programs and schemes. Notably, organizations such as Small Farmers Agribusiness Consortium (SFAC) and National Bank for Agriculture and Rural Development (NABARD) have devised specific schemes to foster the formation of FPOs in India.

Are Women the Missing Link in India's Economic Growth?

Shri Hargovind Sachdev
Former General Manager
SBI

"There are two powers in the world; one is the sword, and the other is the pen. There is a third power stronger than both, that of women." – Malala Yousafzai, Nobel Laureate.

According to World Bank figures for 2021, less than one in five Indian women engaged in jobs and informal work. The data is equivalent to Afghanistan's female labour participation rate before the Taliban took over in 2021 – not a standard India should aspire to be proud of.

India's female labour force participation rate is declining as the country's economy expands. The percentage of women in the Indian workforce dropped to 19% in 2021 from 32% in 2005. The global labour force participation rate for women is 50.83% compared to 80% for men.

The average for 2022, based on 176 countries, shows that the women's **highest workforce was in the Solomon Islands at 84% and the lowest in Yemen at 6.2%**. More than 83 per cent of women in Madagascar actively participate in the workforce, making it the second country with the highest rate of working women.

In the modern world, many occupations see equal representation for women and men. However, some fields attract women, like education, child care services, employment services, nursing, social services, and pharma. These professions have a predominantly female workforce.

Wealth-wise, women own much less than men. **The gender wealth gap is considerably more significant than the gender wage gap. Families headed by women hold just Rs.55 in wealth for every Rs.100 owned by families headed by men.**

Even though more women in India enrol in schools than before, the situation is alarming. **Economists say this is because of the narrow view of women's employment in Indian society; it is still a matter relative to family needs and an emergency measure.**

The conservative view of Indian women in society segregates them into household and family roles and glorifies functions, such as sacrifice, care, and nurture, over professional achievements.

As India seeks to reap its demographic dividend and pursue higher-quality growth, it is imperative that the respect for working women increases, and the corporate world needs to include its women. Historically, women in India have faced various social, cultural, and economic challenges that have hindered their full participation in the workforce and overall development.

The social anxiety around women's participation in the workforce stems from concerns for safety and accessibility. Job opportunities in the formal economy abound in urban spheres. With high migration rates within India and as its cities get crowded by the wealthy and middle classes, policymakers need to encourage female job creation as a metric of social development.

The situation requires corporate participation, both in the public and private sectors, where more women feel valued as productive employees and see growth paths for themselves.

There is an urgent need for socialisation at the community level – in schools and community associations to address the bias and traditional attitudes towards women in the public sphere. The government must conduct public programs at all levels to promote women's empowerment and freedom to work and explore economic choice.

Presently, there is a need to address gender disparities seriously to empower women to contribute more

effectively to the country's growth. **Mandating Board-managed corporations to have women directors is an essential initiative of a high order.**

Significant action points to enhance the role of women in India's growth story are:

1. **Gender Equality and Economic Growth**: Numerous studies have shown a strong correlation between gender equality and economic growth. Given equal opportunities and access to resources, women significantly contribute to economic productivity and development.

2. **Women in the Workforce:** Increasing women's participation in the formal workforce can positively affect the economy. It can lead to higher labour force participation rates, increased consumer spending, and a diverse and skilled workforce.

3. **Empowerment and Education:** Improving women's access to education and skill development is crucial for empowerment and economic participation. Educated women seek better job opportunities, earn higher incomes, and invest in the family's well-being.

4. **Entrepreneurship:** Encouraging and supporting women entrepreneurs is vital to India's growth story. Women-led businesses have the potential to drive innovation, create jobs, and harness economic development.

5. **Mitigating Challenges**: Despite progress, women in India still face significant challenges of gender discrimination, limited access to resources, and social norms discouraging economic participation. Addressing these challenges requires policy interventions, cultural shifts, and sustained efforts from various stakeholders. The government must fix annual targets to mitigate these challenges.

Women play a crucial role in India's growth story. Much work is still required to ensure their participation in India's economic growth.

Empowering women and promoting gender equality can unlock their untapped potential, leading to more inclusive and sustainable economic development to take the Indian economy to dizzy heights.

A human does not need extraordinary strength to perform strenuous jobs. Instead, having proper technique, agility, and speed is adequate. A female worker who picks up the requisite qualities, remains calm, and controls herself can perform equally essential roles that her male counterparts can handle.

There is no limitation to women's power in India. Let us empower them to actualise India's full economic potential. The valuable female workforce shall remain a missing link in India's economic growth unless nurtured proactively through a sustained planning process embedding equality, empowerment and trust.

Rightly said, "A world full of empowered women isn't one where men are marginalised. It's a world where everyone thrives."

Rating System for MSME Sector - SMERA

CMA Manmohan Sahu
MSME Consultant & Financial Advisor
Hyderabad

A significant number of small and medium-sized enterprises (SMEs) can be found in the manufacturing sector, utilizing technology ranging from outdated to state-of-the-art. These SMEs generate revenues that vary greatly, from small-scale operations with turnover ranging from ₹ 5 Crores to ₹ 250 Crores. SMERA employs a well-structured approach and methodology to evaluate the credit risk profile of entities within the manufacturing sector and its sub-sectors. This evaluation criteria are not industry-specific, but rather encompasses the entirety of SME manufacturing units. The following is outline of the process for assessing the qualitative and quantitative drivers that determine the credit quality of the enterprise being rated. Depending upon on the nature of the enterprise, as well as factors such as scale, revenue levels, market coverage, and prevailing circumstances, the weightage and application of parameters and factors will vary from one enterprise to another.

Risks to be Evaluated to determine the Rating:

a) Business Risk ((Industry, Market position and Operating Efficiency).
b) Management Risk.
c) Financial Risk (Historical Financials, Accounting Policies and ability to raise resources).
d) Project Risk.
e) Group Support / Parent Support etc.

a) Business Risk:

Each manufacturing entity is associated with a specific industry, such as textiles, chemicals, or plastics. The characteristics of the industry, including ease of establishment and the availability and procurement of raw materials, are common to all entities within that industry. Furthermore, the operating environment is generally similar for all entities in the industry. Evaluating industry risk is a crucial component of assessing the credit profile of an entity. Industry risk assessment considers various factors within the industry and the overall operating environment.

The following are the key aspects taken into account:

≈ The performance and potential of the industry are directly influenced by the economic conditions of a country/state and the performance of the economy/state. The industry's profitability is directly influenced by important factors such as the growth rate of the economy, foreign exchange movements, imports and exports, interest rate risk, and commodity risk. To assess the demand for a product/service, an analyst evaluate its utility to the consumer and the growth in disposable income and spending patterns of the consumer.

≈ The profitability of an enterprise is determined by the demand, supply, and pricing. This assessment takes into consideration various factors.

≈ An evaluation of past and present price trends is used to determine if a product is in excess supply, short supply, or in a state of equilibrium. When analysing the demand-supply gap, analysts must also consider factors such as the availability of substitutes, future planned capacities, product innovation, and process improvements. Additionally, the growth of end-user industries is an important indicator of future demand.

≈ When forecasting the demand for a product, the analyst take the following into account. Firstly, they must consider the product itself and its utility to consumers, as well as the spending patterns of consumers. The availability of substitutes also plays a key role in influencing demand, as a large number of equivalent products make it easier for consumers to switch. The demand for a product is also affected by the needs of end users, so the growth of these end users is an important factor to consider.

≈ Additionally, the life cycle of a product, whether it is nascent, growing, mature, or declining, can impact demand. The usage of a product, whether it has single or multiple applications, also influences demand. Finally, the position and dimensions of imports and exports, such as pricing, quality, lead time, and minimum order quantity, need to be assessed to estimate the impact on demand and profitability.

≈ When assessing the projected supply-demand gap, the analyst must also consider the magnitude and timing of fresh capacity additions.

≈ When assessing Industry Risk, it is necessary to forecast future profitability. Various factors and scenarios contribute to and influence future profitability.

Market position analysis takes into account the risks associated with revenue. A detailed analysis is conducted on the following factors.

✓ The market's ability to diversify its products and withstand shocks. This includes diversifying revenue streams based on geography, customer base, and product offerings.

✓ The introduction of new innovative products or the availability of cheaper substitutes for different economic conditions.

✓ When evaluating the sustainability of a business, Rating Agencies considers compliance with local laws, litigation cases, adherence to pollution control requirements, and statutory obligations. The number of years the business has been in operation and its growth/profitability achievements also contribute to its sustainability etc.

b) Management Risk:

Most of the small and medium enterprises (SMEs) exist in a non-corporate form and may or may not have a defined second line of management. The evaluation of these enterprises heavily relies on the quality of their management, as it greatly impacts their performance. The assessment focuses on several aspects of management, including quality, competence, governance, and risk attitude.

Below, we present the risk framework for assessing these factors:

✓ The decision-making authority for the line of business, operational matters, and the selection of personnel, machinery, policies, and procedures lies with the promoters. They also determine the current business strategy and future growth plans. The promoters have a significant influence on management action, decision making, and the future course of the company. Their long-term and short-term visions and plans have a direct impact on the growth and profitability of the enterprise.

- ✓ To evaluate the promoters, their background, previous experience, and exposure to the chosen line of business are taken into consideration. The performance of their previous business ventures is also examined.
- ✓ Additionally, their role and responsibility in the decision-making process, depth of knowledge and expertise, commitment to the entity, succession plan, and intention to professionalize management are assessed.

When assessing the leadership of an enterprise, four factors are essential i.e., Competence, foresight, stability, and risk orientation. In addition to these factors, other aspects are taken into account, such as the track record and consistency in performance, managing the organization during times of uncertainty, providing opportunities for executives to emerge as leaders, leadership style, communication skills, team building, labour relationship, and turnover of top management.

Several key risk parameters need to be considered, including adherence to local laws and environmental norms, instances of default on statutory obligations (whether wilful or not), banking conduct, repayment record, and data submission. The presence of adverse news about the company and the reputation of management, as well as any criminal proceedings against the promoters or raids conducted on the organization, are also taken into account. The history of litigation is another important factor to consider.

Several key factors are considered in this analysis, including the adequacy and quality of disclosures, market feedback, management responses, unexplained group/parent transactions, soundness of accounting practices, frequent changes of auditors and accounting policies, and employee remuneration and motivational levels etc.

c) Financial Risk:

The performance of an enterprise is reflected in its financial position and working results. In order to assess this performance, a financial analysis is conducted, focusing on various aspects such as growth, profitability, break even, value addition, liquidity, level of indebtedness, level of overall outside liabilities, quality of receivables, quality of investments, cash flow adequacy, and short-term and long-term solvency. Furthermore, factors like contingent liabilities, auditor's qualifications, accounting quality, notes to accounts, and the reputation of the auditors are also taken into consideration.

The analysis of financial ratios plays a crucial role in evaluating the performance of an enterprise. These ratios include debt/equity, return on capital employed, profitability margin, asset turnover, interest cover, debt service coverage, cash accruals to debt, and the size of net worth. The significance placed on each ratio may vary depending on the nature of the business. To determine the relative standing of an enterprise, these ratios are compared with those of its peers and are benchmarked accordingly.

When analysing audited figures, the analyst should take into account several factors and adjust the figures accordingly, if necessary.

These factors include auditors' comments and qualifications, changes in depreciation, write-off and reserve policy, consistency of policies/methods, quality of financial disclosures, contingent liabilities, unprovided depreciation, revaluation reserves, intangible assets, and reworking of net worth.

Historical financial analysis should cover a period of 3-5 years, and various factors are considered in this analysis. These factors include sales, profitability (ROCE, operating profit, PAT), debt-equity, debt protection cover (interest coverage ratio, debt service coverage ratio), trends in operating efficiency (cost as a percentage of sales, productivity per employee, break-even analysis), margins (operating profit margins, PAT margins), liquidity (current ratio, quick ratio, inventory days, receivable days, payable days, quantum and possible impact on cost of purchases, working capital days, quality of receivables, and debtor over 180 days), return ratios (return on net worth, ROCE, return on assets), and solvency (debt equity mix, debt service coverage ratio, interest coverage ratio).

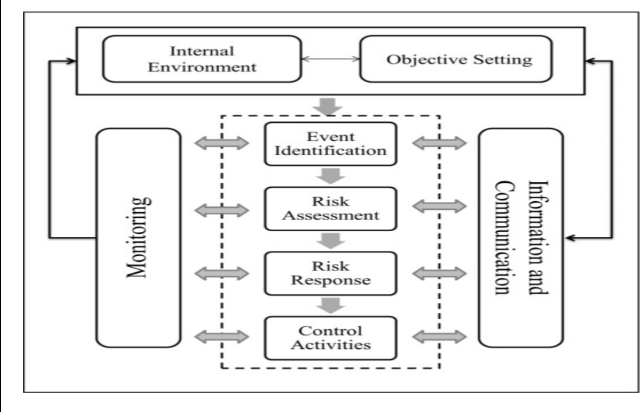
The comparison of these factors is conducted in relation to the entity's closest counterparts in order to determine its relative position. The capacity of the promoters and the firm to mobilize resources demonstrates their ability to obtain convenient and cost-effective financing in order to meet obligations during both normal and challenging circumstances etc.

d) Project Risk:

The nature of projects such as expansion, diversification, green field, brown field, size in relation to existing operation, new product line etc. play a critical role in assessing the project risks. The following aspects are considered:

1. Cost of Project.
2. Means of Financing.
3. Financial closure.
4. Product.
5. Technology.
6. Project implementation risk.
7. Time and cost overruns.
8. Raw material availability.
9. Market and Demand supply analysis.
10. Financial projections and assumptions underlying the projections.
11. Project Implementation skills.
12. Track record of the management in project implementation.

A sensitivity analysis is also done to see the impact of different variables on the financial viability of the project.



The factors analysed include synergies to existing businesses, competitive advantage it offers, access to new markets, product, technologies, customer base, access to raw materials, economies of scale or improved market position.

The following aspects need to be analysed:

a) Land procurement, regulatory approvals and clearances.
b) Track record of the management and ability to manage large projects, size and complexity of current project in comparison with earlier projects.
c) Project complexities, in terms of virgin location, some/ no infrastructure, type of contract(turnkey/others).
d) Firm product off-take committed supply of raw material and power.
e) Technology risk-gestation period in procuring production technology especially if imported, commissioning delay, operational delay, suitability of technology, technology obsolescence etc.

Financial closure is an important aspect of financial risk. The factors considered are:

a) Total funding-size of the project.
b) External funds requirement, cash accruals of the firm, restrictions on the use of funds by lenders, commitment to other projects and the risk appetite

of the management are factors that need to be ascertained.

c) Borrowing-company philosophy regarding leverage on borrowing, borrowing capacity of the firm, banking and institutional relationships, cost of borrowed funds, covenants, effect on overall leverage and rating.

The ultimate viability of the project is dependent on how the company can drive revenues, manage costs and generate cash flows to meet its financial obligations etc.

e) Group / Parent Support:

An enterprise belonging to an established business group could benefit from the parent /group in terms of credibility, brand name, managerial, business and financial support. This is not the case with a standalone entity. Notching ratings of individual companies up or down is based on the support in terms of management, resources and marketing that the entity would derive from the group/parent.

Some of the factors considered for group/parent support are usage of common name, size of investment and holding in the entity by its group/parent, financial support and past instances of support.

To Conclude, while SMEs form a crucial part of the Indian economy, their heterogeneity makes it difficult to evaluate them. A standardized rating system makes it easier to benchmark an entity's parameters and validate claims. This in turn can provide bankers & lenders the crucial information that they require to finance an SME. However, a traditional credit rating evaluates financial instruments compared to large companies, which may not be an appropriate measure of credibility for an SME. This is where SMERA's SME Credit Rating differs:

- ✓ Provides a rigorous assessment of business & financial risks.
- ✓ Measures business credibility on a separate benchmark, specific to SMEs.
- ✓ Evaluates organizational parameters like operations, finance, technology & more.

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'Risk Based Supervision' of Insurance Sector

CMA (Dr.) P. Siva Rama Prasad
Former Assistant General Manager
State Bank of India, Hyderabad

The initiation of the **first phase** of pilots for the implementation of the 'Risk Based Supervision' (RBS) framework in the Indian insurance sector, commenced from July 2023, has been notified by the Insurance Regulatory and Development Authority of India (IRDAI).

The role of any insurance regulator is to promote and maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders. To create such an environment, it is important that the regulator puts in place a mechanism where an insurer will take timely preventive and corrective measures, wherever required.

For this project, the IRDAI has collaborated with M/s Toronto Centre. The adoption of the RBS framework aligns with the IRDAI's objective of embracing global best practices for supervision, focusing on proportionality, materiality, and holistic analysis of regulated entities from a risk perspective. The IRDAI first disclosed its intention to transition to the RBS framework in October 2018, highlighting the benefits it offers for insurance supervision.

- ✓ A structured approach is utilized to evaluate both internal and external risks.
- ✓ This approach is forward-looking and outcome-based, with a focus on assigning responsibility to the Board and senior management.
- ✓ Its purpose is to facilitate the early identification of market conduct and prudential risks, allowing for timely regulatory intervention.

The commencement of the RBS framework, even on a pilot basis, marks a significant milestone in the supervisory regime and reflects the maturity of the Indian insurance industry. It is consistent with the IRDAI's broader regulatory intent of moving from a prescription-based framework to a principle-based framework.

RBS in Insurance Industry:

The evaluation and supervision of an entity may largely depend on its risk profile and business activities. However, certain fundamental steps can be considered to facilitate this process.

Risk Assessment

Insurance companies carry out various activities to conduct their business. The risks vary based on the activities undertaken by the regulated entities. Risk assessment drives the supervisor from 'one size fits all' approach to 'risk based' supervisory approach. This would involve defining key risk indicators, data requirements, and analytical tools to evaluate the risk profile of each company accurately. This categorization would help in determining the level of supervision and regulatory requirements for each company.

Identification of the Significant Activity

In the risk-based supervisory framework, significant activities of a company are identified and assessed to pinpoint critical units aligning with the business objectives and strategies for effective risk management.

Risk Mitigation and Risk Control Mechanism

A company's control mechanism hinges on operational management, defining policies and systems for risk management. Supervisors assess operational quality and oversight against inherent risks to gauge overall risk management effectiveness.

Collaboration and information sharing

Insurance companies may need to provide more detailed and granular information about their risk exposure, risk management practices, and solvency positions. Enhanced regulatory reporting requirements and increased transparency in disclosure would enable the IRDAI to assess and monitor risks more effectively.

Assessment of Risk to Viability

Risk to viability in insurance companies evaluates safety and soundness through earnings, capital, and liquidity, rated from low to critical with a timeframe. Longer timeframes indicate stability, while shorter ones signify volatility in the risk rating.

Intervention Mechanism

Assessing the risk to viability of an insurance company is followed up by setting up an intervention system. The intervention system is expected to trigger appropriate supervisory actions depending on the 'risk to viability' profile of an insurance company.

On-site reviews

These reviews and interactions with the company's management and oversight functions are critical to effective supervision of a company and deepen the supervisor's understanding of the company and its risk profile. Sufficient skilled personnel with expertise in risk management and actuarial science would be needed to carry out risk assessments and supervisory activities.

The implementation of the risk-based supervisory framework by the IRDAI will require the development and utilization of intervention tools. This will involve establishing risk indicators thresholds, defining triggers for intervention actions, and determining appropriate supervisory responses to mitigate risks or address non-

compliance. In this regard, insurers are expected to proactively emphasize and monitor the risks associated with their activities. It is crucial for them to establish a framework that enables internal risk assessment and implement corresponding control mechanisms. Overall, the implementation of the risk-based supervisory framework by the IRDAI will bring about significant changes in the regulatory landscape of the Indian insurance industry. It will enhance the focus on risk assessment, promote stronger risk management practices, and contribute to the overall stability and soundness of the insurance sector.

Assessment of Inherent Risk:

a) Each of the identified significant activities may subject the insurance company to different types of risks. For instance, the inclusion of high sum assured term insurance and other risk products may expose the insurer to elevated mortality risk, while substantial guarantees in non-linked products may expose the insurance company to significant market risks, among other risks. Additionally, motor third party liability exposure may result in substantial legal risk, among other risks.

b) The insurance company must assess the various types of inherent risks it is exposed to due to significant activities. These risks include Insurance Risk, Market Risk, Operational Risk, Strategic Risk, and Credit Risk. To effectively and efficiently assess these risks, they may be further divided into subcategories such as Product Design Risk, Pricing Risk, and Liability Risk.

c) The assessed risks do not take into account the size of the activity or the control mechanisms implemented by the insurance companies to manage these risks. In other words, the risks are evaluated without considering the risk mitigation measures, such as governance framework, compliance framework, and policy framework, as well as the size of the activity.

d) Consequently, each activity is assigned a level of risk. The supervisor then evaluates the control mechanisms established by the insurance company to manage the risks at an acceptable level based on the assessment of risks within each significant activity. This evaluation involves assessing the quality and effectiveness of the control mechanism in relation to the inherent risks associated with the activities.

Risk Mitigation Mechanism:

≈ The control mechanisms implemented by an insurance company serve as a reflection of the company's risk management and operational management on a day-to-day basis. These control mechanisms are crucial for managing the significant activities undertaken by the company. Additionally, they provide insight into the level of corporate oversight and governance, indicating the adequacy of these processes.

≈ In order to effectively manage the risks associated with significant activities, insurance companies must establish control mechanisms. Operational management plays a pivotal role in the day-to-day management of these activities. It is responsible for creating appropriate policy frameworks, processes, systems, and resources. These frameworks should be established with the necessary expertise and authorization levels, as well as reporting requirements to address the inherent risks within the significant activities. Examples of such frameworks include board-approved underwriting, claims, and investment policies, as well as standard operating procedures for various functions and suitable IT systems.

≈ Companies that possess greater control mechanisms and higher inherent risks are likely to perform better than companies with moderate inherent risks but lacking controls. Controls are essential for eliminating or mitigating the risk of failure. Therefore, the assessment of controls becomes critical for supervisors in order to understand the effectiveness of risk mitigation practices, the competence of operational management, and the overall corporate governance.

≈ When assessing the operational management of an insurance company, supervisors primarily examine their ability to identify and implement mitigating tools for potential losses. Insurance companies must have capable board members and senior management in order to conduct their business. The board of directors holds ultimate accountability for the management and oversight of the company, and they are expected to delegate appropriate responsibilities to the senior management. The quality of oversight is assessed through various functions, including the board, senior management, risk management, external audit, internal audit, compliance, actuarial, and financial departments.

≈ Supervisors are required to assess the quality of operational management and relevant oversight functions for each significant activity. These assessments are compared to the expected requirements for risk management and the levels of inherent risks. A risk matrix is developed, taking into account the inherent risks and the assessed quality of risk management. The direction of the quality of risk management is also assessed as increasing, stable, or decreasing.

RBS in Other Countries:

Various countries, such as the United States of America, United Kingdom, Australia, Canada, and Singapore, have already implemented risk-based supervisory frameworks in their financial services sectors. In India, the Reserve Bank of India (RBI) has also adopted the RBS model to supervise banks, Non-banking Financial Companies (NBFCs), and other financial institutions under its purview. The RBI Governor has consistently emphasized the importance of an efficient risk management culture in banks and NBFCs. The RBI's August 2020 annual report reiterated the need for an effective and sophisticated risk management system that can anticipate risks and vulnerabilities, aligning them with changes in the external environment and best practices.

The RBI has emphasized the importance of establishing a resilient financial system, which can effectively withstand a wide range of shocks. The CAMELS approach, comprising of Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Systems & Control, is utilized by the RBI to review the RBS model. This review process aims to capture and eliminate any inconsistencies in order to effectively assess the risk. The RBI employs this approach to supervise and evaluate supervised entities, with the objective of evaluating their financial health, liquidity, solvency, asset quality, and governance framework.

RBS by RBI:

The RBI has established a system to identify vulnerabilities at an early stage. By adopting the RBS Model, the RBI utilizes data analytics in the quarterly offsite returns to provide comprehensive inputs to onsite supervisory teams. A framework for early warning, which monitors macroeconomic variables, market indicators, and banking indicators, complements this analysis. The RBS model allows for both bank-wise and

system-wide stress testing, providing a forward-looking approach to identifying vulnerable areas. The regulator identifies stressed sectors through micro-prudential and macro-prudential analytical studies, which serve as inputs to the RBS model. Additionally, ongoing market surveillance and misconduct analysis are conducted. Implementing this mechanism enables the RBI to revise and create prompt corrective actions for banks, facilitating supervisory intervention at the appropriate time. It also compels banks to initiate and implement timely remedial measures to restore their financial health.

To further substantiate the impact of the supervision process, the profitability of banks is assessed. Analysis of the net profit/loss as a percentage of total assets of banks is conducted to evaluate its effect. The increase in operating profits can be attributed to the efficient operations of banks, along with effective supervision by the RBI. Furthermore, the analysis of the capital-to-risk asset ratio data of all types of banks (private, public, and foreign) in the reports analysing the trend and progress of the sector in India over the past few years indicates an enhancement in the capital adequacy of banks. This improvement can be attributed to the risks identified and the subsequent actions taken.

These examples demonstrate that risk-based supervisory frameworks are widely implemented in various jurisdictions, although there may be some differences in approach and specific practices. The common thread among these frameworks is the emphasis on assessing and managing risks, tailoring supervision based on risk profiles, and ensuring the overall stability and soundness of the financial system.

To Conclude:

The RBS model serves as a risk management tool that aids regulators in mitigating systemic risks, thereby achieving the objectives of regulation, policyholder protection, and financial stability. It is believed that implementing this model of regulatory supervision will help reduce vulnerabilities and enable insurers to conduct business while pre-emptively addressing the highlighted risks. Most supervisors gradually introduce a risk-based approach in tandem with their existing compliance approaches, once they have confidence in the ability of their supervisors to make sound risk judgments and the reliability of their measurement tools. The implementation of risk-based supervision for the insurance sector, coupled with the objective of transitioning into a principle-based regulatory regime by the IRDAI, is expected to address the needs of a maturing insurance industry.

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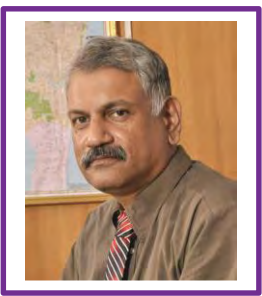
1. *IRDAI Web-site.*
2. *Risk Based Supervisions of Banks*

PSU General Insurers - Ailments & Solutions



Shri KB Vijay Srinivas
Former GM Director &
Jt addl charge as CMD, UIIC

The Government of India is the owner of six insurance companies. The mammoth LIC straddles the Life Insurance Sector. Even after close to a decade and half of the sector being opened up to private companies, LIC has retained a significant market share. With so many new entrants, it is but natural that the market share would slide for LIC but it has been a slow movement down. GIC Re, the national reinsurer, is holding its own. ECGC is a specialised organisation operating in a limited but important field. Agricultural Insurance Company (AIC) deals exclusively with crop insurance.

Then there are four composite general insurance companies which deal in all kinds of non-life insurances. The National Insurance, New India Assurance, Oriental Insurance and United India Insurance, were earlier wholly owned subsidiaries of the GIC prior to the opening up of the sector. These are the oldest insurance companies in India. They were delinked and the shares held by GIC were transferred to the government. These companies have lost substantial market share, are down financially and appear to be rudderless. The driver, the government keeps giving conflicting signals. Apparently, they are suffering from multiple problems and require immediate succour. They are still strong organisations and with appropriate treatment can bounce back.

CURRENT STATUS:

The four PSU General Insurers have jointly and severally a significant presence in the market. However, there are major areas of concern.

The PSU market share for the first time went below one third. This is psychologically a negative factor.

Solvency margins continue to a major concern. Three of the four companies are badly hit. One of them of course is showing comfortable margin.

Underwriting continues to show losses, and are higher than their comparable private sector peers. The shows I need Reinvent themselves both in the area of choosing the right type of business as well as in ensuring that settlement of claims what happens properly.

Lack of direction from the owner. Varying signals have been coming from the government. Some of these were official, some were rumours. But like the saying 'There is no smoke without a fire', some of them would at least have had a basis. Thus there was news of total disinvestment of one or more of the companies. Similarly merger of the companies in various combinations have circulated. The most convincing was the budget announcement a few years back where three companies were to be merged leading to there being two PSU companies in the market. A couple of years later this was dropped.

Traditional marketing channels like agents and direct business dominates for PSU's. The newer channels like Brokers, MISP and Bancassurance have a lower share. Considering that the brokers as a channel have overtaken agents recently, this dependence on the traditional channels does not bode well.

THE PAST:

A small peek into the past would be useful to understand the performance of these companies and what could be done for them.

Profitable Dividend Paying Companies:
These companies have been profitable for long years with a record of consistent dividends and increases in the share capital by way of issue of bonus shares. Their

performance could very well compare with some of the best in the private sector.

Consistent Growth:
It is also a fact that these companies showed consistent growth throughout their existence and rarely went into the negative. The table below shows the premium at ten-year rests.

Table: GI Industry Premium (ten year rest)

YEAR	INDUSTRY PREMIUM
1973	18,426
1983	85,700
1993	3,79,207

Premium - Rs.in Lakhs
Source: Committee for Reforms in Insurance Sector

Spread of Insurance :

Insurance which was essentially urban centric and almost elitist prior to nationalisation, was taken to deep interior rural areas also in a big way by these companies. Many rural based insurances like cattle, livestock, biogas etc were developed. A good amount of effort was expended in this direction.

Table:
(Rs. In lakhs)

YEAR	LIVESTOCK		AGRI PUMPSET		JANTA PERSONAL ACCIDENT		GRAMIIN INSURANCE		TOTAL (Rs)
1974	0.3	25	-	-	-	-	-	-	25
1984	142.7	4596	2,4	170	35.1	361	3	18	51
1993	181	9609	6.6	700	130	815	**	**	11,124

*** included in Janta Personnel Accident*
Source: Report of Committee on Reforms in the Insurance Sector

Spread Of Office Network:

From a handful of offices, each of the company's has around 2000 offices across the country. Having physical Offices even in these days of heightened online activity, has it's own impact. An exercise was carried out through the years to open offices in the remotest places, catering to the local populace. It had a wonderful effect over the years.

Vehicles For Implementing Government Schemes For The Poor :

The government introduced PMSBY, a personal accident policy with two lakhs sum insured for a very low premium of Rs 12 per person. It was almost entirely shouldered by these companies. The private insurers were near absent. The result of course were huge losses every year. Being government schemes with a social orientation, these companies bore it all. Similar was the position when many other socially oriented schemes were introduced.

Implementing National Policies:

Policies of National importance like reservations in recruitment or adherence to the tenets of the Official Language and so many others are done assiduously, being government companies.

Creating Of An Environment For Insurance Training :

Extensive training is a regular feature for government companies thereby creating a pool of insurance literate persons. This is not much seen in the industry now.

One could talk about many other laudable activities of the government insurance companies but that would take a lot of space and hence would restrict to just these few highlights .

THEN WHY THE DOWNFALL.?

Even as the market was opening up, there was apprehension that the PSU's were going to face tough times. The field was being modified in such a way that they would be running uphill. A plethora of causes has

led to the current state of affairs for government insurers. A few important decisions taken over the years which had major deleterious effects is briefly discussed here.

Human Resources; – is an important component in a service industry like insurance. Things were going on well with an integrated cadre of existing and new recruits being developed. This hit a road block and for two decades from 1990 onwards there were no fresh recruitment's. Both government banks and insurers were hit by this policy, resulting in shortages at various levels. Once recruitments were started after this long interval, the companies went overboard and recruited large numbers and that too in fits and starts, creating its own problems. No organisation can have this approach for long and not be adversely affected.

Voluntary Retirement (VRS) ;

In 2004 a special voluntary retirement scheme was implemented. A lump-sum payment was given along with a handsome pension for lifetime. It resulted in a whole lot of trained talent exiting and joining the newly opened private companies, brokers and other intermediaries. The loss was to the government companies and was an obvious gain to the new private organisations which got trained manpower on a platter.

Was there excess manpower which had to be shed? Perhaps no. A clue can be had from the fact that around the same time, the companies decided to hand over servicing of medical insurance business to a new intermediary called Third Party Administrators (tpa). Usually outsourcing is done when they do not possess the required skills, operational ease or, because of staff shortage. These were companies already handling the portfolio competently. So was staff shortage the cause and if so was a VRS called for?

Dismantling of the Marketing Force;

Worse, this voluntary retirement was also given to the marketing staff. They were given three options – opt for vrs and leave, continue in the same post or, continue in the company but switch over to doing dministrative duties . Many of those who left took their business to others, many who switched to-administrative jobs found themselves at sea. The marketing arm, a crucial one for the company was severely damaged. That the decision was wrong, was recognised after fifteen years when development officers were re-employed post retirement to prevent further erosion of business.

Development Of Unhealthy Market Practices;

There were very strict norms about remuneration to marketing intermediaries of insurance companies. It is common knowledge that in violation of these norms many companies indulged in paying higher sums to intermediaries through various means for procuring business.

Without getting into details, suffice to say that authorities are now probing for evasion of GST and IT. Demands run into a few thousands of crores and some companies have reportedly paid up. Recent reports talk of notices being sent by the IT department under the Benami Transactions (Prohibition) Amendment Act, 2016, being sent to agents, who are intermediaries involved with procurement of premium.

The net effect however was business moved away from government companies.

Internecine Battles For Business;

The companies were so used to battling with each other for getting business over the years that they did not pay heed to what was there in the market. The government did make some moves to check the trend but did not succeed much.

Competition Commission;

The commission chose to treat them as independent companies despite having a single owner having 100 % shareholding. They thereby effectively ensured that they could not join together to quote for business.

Emphasis On Top Line;

For decades the companies had got into the habit of focusing more on the top-line than the bottomline. This was necessary during the pre-opening days and was sustained at that time perhaps by having a tariff for premium rates. In the new scenario their continuation with the same thought process was untenable.

These are but only a few of the causes which have led to a downturn in the fortunes of these companies. Some of them have been the result of the companies themselves, some because of the actions of the owners and some due to changing market scenario where, being government insurance companies, they are unable to tackle.

IS THERE A NEED FOR PSU INSURERS?

The answer to this question would be a resounding Yes. These are times when the expression " It is not the Government's business to be in business ", is used quite often. With this philosophy the Government has been working over the years to exit many of its creations. In some cases it has now paused and in some it considers not to leave for now. Fact is, India chose to be a mixed economy with many sectors operating. The relative importance has varied over the years. We are now passing a phase where the balance is moving towards the private sector. But the public sector continues to hold a place for itself in many areas. Insurance should also continue in the same fashion.

It has been an implementer of many social schemes which otherwise would not receive the desired support. Some such instances were discussed in earlier paragraphs.

Desire of various stakeholders. The Committee on Reforms in the Insurance Sector had conducted a survey of various stakeholders and by and large most opted for both sectors to be present. Even after close to two and half decades of the entry of numerous private companies, the government companies continue to receive the support of a really large number of customers. In other words a large section of the customers desire the presence of government insurers.

CAN THE DOWNTURN BE REVERSED?

Despite the situation as it appears today, these companies continue to have a lot of positives and can be revived. *There is considerable brand loyalty, a strong committed workforce, a large pool of agents, a big office network. Their investments are robust.*

The efficiency of their operations can be assessed by the fact that they have a customer base running into crores. More than 50% of the claims of the industry is serviced by the government companies. Their claims disposal ratio, which is a percentage of the number of claims which are disposed during the year in comparison to the total number of claims registered is very high and has been in the nineties which is indeed significant. Claims denied are among the lowest in the industry. This is a notable feature which unfortunately is not highlighted much.

So the answer to this question is, '<u>No, they are not beyond redemption.'</u> These companies can, with some right changes be brought on track. But revival has to happen quickly before they get further weakened.

<u>*Steps To Be Taken for Resurgence*</u>

Many steps would have to be taken- some small, some big, some short some medium and some long-term. Here, only a few macro level thoughts are mentioned. While the market processes cannot be changed, there are two parties namely, the owner that is the government and second the companies themselves who can make changes .

<u>*The Owner Has To Start Thinking Like A Commercial Owner;*</u>

This would require a change in attitude. It should realise that these are commercial entities operating in highly competitive markets. Whatever is required to make them competitive has to be ensured. It is common knowledge that government organisations suffer from fear of the 3 C's- CAG, CBI, and the CVC. Here, case being made is, if it is not possible to take them out of their ambit at least introduce steps to ensure that they come out of the feeling of fear.

<u>Government Should Provide a Level Playing Field;</u>

As discussed earlier, being part of the government, these companies cannot handle some of the things happening in the market. In all fairness the government ought to step in and provide support in ways possible. Infusing capital when required will work upto a point. It has to go beyond that and find other methods too.

One method is to make use of the many government institutions requiring insurance. Prior to opening up of the sector all this was handled by the same government insurance companies. These institutions should be asked to place their insurance requirements with PSU insurers alone. This one step, by itself, could bring a certain amount of stability to business volumes.*There are ways to ensure that market oriented rates are available to those seeking insurance.* It would also prevent any malaise present in the market from affecting these institutions.

<u>*Recapitalisation*</u>: About 50 years back these companies were set up with a small capital. Over the years they have been giving regular yields. Even after almost two decades of opening up of the sector to new players these companies have been doing fairly well for most of the time. Now they seem to have hit a roadblock. Hence there is need for recapitalisation. The government has released some amounts on a couple of occasions but these have not been sufficient. A deep examination of the requirement has to be made and injections of funds

has to be done appropriately and before the situation worsens . The government has shown the will to infuse funds in other institutions like the Banks, where the support ran into lakhs of crores. It was considered necessary and it was done at the right time. The effect has been that all these banks which were looking fragile have now been recording healthy margins. There have been other instances too where government has stepped in at the right time to support the organisations. It is just like giving medicine to a person affected by some disease. Given at the right time, the person stands cured and becomes healthy again.

Solvency: This is often touted as one of the negatives against Government insurers. For many who are not conversant with insurance accounting and solvency regulations, the word would indicate the company being in its final stages. The situation had gone to such an extent where even other government companies denied entry to PSU Insurers for participating in their insurance programs. The government had to step in recently and issue instructions that such denial should not be done. There are ways and means of handling the issue of solvency and an in depth study is required to bring back the ratios to acceptable levels.

Merge The Four Companies: This is a workable proposition. The four companies are similar in almost all respects. Combining them into a single entity would result in a very strong organisation which would be able to effectively tackle the market and grow. A look at the relative performance of a monolithic LIC and the four companies competing with each other in the non-life sector, all belonging to the government, would say it all. Further, many banks have been merged in the recent past and it seems to have happened fairly smoothly.

At the time of nationalisation this model of four competing companies was thought of to instil a sense of competition. The model worked well at that time but has now outlived its utility. Merging the four and creating a single entity makes sense now and could reverse the downward movement.

A look at LIC and how it has been able to hold on to its position regardless of the new entrants is a case in point. Of course it's market share has come down from the hundred percent it had at the time of opening up of the sector. That is only to be expected. But the erosion has been slow and it continues to grow and hold a leading position in the sector.

Attitudinal Change: From emphasis on topline which has dominated their psyche, there has to be a change and realisation that the bottomline is also very important, has to set in. Not that It is not already there, but still a lot has to be done to ingrain it in the culture of the organisation. Both the companies as well as the owner has to get into this frame of mind.

There are many other steps which also need to be taken, but those are smaller and discussing them here would be cumbersome. The above major steps if initiated, would by itself set in process necessary changes and reinvigorate the companies.

In summary, despite the current appearance of distress among government insurance companies, there exists a viable pathway for their resurgence. By swiftly implementing necessary measures, these entities can transform into formidable and stabilizing forces within the market landscape.

Navigating Indian Equities: Insights and Perspectives for the Road Ahead

CMA Dhiraj Sachdev
Managing Partner & CIO,
Roha Asset Managers LLP

In the ever-evolving landscape of Indian equities, the past three months have been marked by a confluence of factors shaping market dynamics and investor sentiments. Against the backdrop of 3QFY24 financial results, the idiosyncrasies of small and midcap segments, anticipations surrounding the general election outcome, burgeoning domestic retail participation, the resurgence of manufacturing and capital expenditure cycles, foreign institutional investor (FII) flows, and the trajectory of Public Sector Undertakings (PSUs), the Indian equity market stands at a crossroads of opportunities and challenges. As we delve into these facets, we unravel the narratives and discern the contours of the road ahead.

1. **3QFY24 Financial Results: Implications and Insights**

   The third quarter of the fiscal year 2024 witnessed a spectrum of financial performances across sectors, unveiling a mosaic of resilience, adaptation, and transformation. Amidst macroeconomic headwinds and sectoral tailwinds, companies navigated through challenges, leveraging digital adoption, operational efficiencies, and strategic realignments to drive revenue growth and margin sustainability. Sectors such as auto & ancillary, cement, engineering & capital goods, pharmaceuticals, real estate, travel, hospitality and select consumer goods showcased robust earnings, buoyed by consumer demand and ongoing shift from unorganized to organized sector. Conversely, sectors like metals and commodities grappled with asymmetrical impact of global uncertainties on corporate landscapes.

2. **Small and Midcaps: Unraveling strong performance amidst diversity**

   The small and midcap segments of the Indian equity market defy generalizations, embodying a spectrum of opportunities and risks that demand nuanced understanding and diligent analysis. While these segments offer avenues for exponential growth and value discovery, they also exhibit volatility and liquidity constraints, necessitating prudence and discernment in investment decisions, especially after strong run-up over the last one year. Market participants should recognize the heterogeneity of small and midcap stocks, emphasizing specialized research and risk management strategies. In an overall assessment, many small-mid cap companies have run ahead of time in terms of earnings and may witness price or time correction. A few may also be frothy in valuations based on their business quality and need to be avoided. However, a select few small caps may still warrant investment based on reasonable valuations and growth outlook.

3. **Market Sentiment Anticipating Election Outcome**

   As the Indian equity market anticipates the outcome of general elections, market sentiments reflect a confluence of political conjectures, policy expectations, and investor perceptions. The incumbent government's track record, policy continuity, and reform agenda shape market narratives, as investors gauge potential implications on economic growth, sectoral dynamics, and positive market sentiments. The market's ability to discount and assimilate electoral outcomes underscores its adaptability and resilience, as investors navigate through uncertainty and volatility, seeking avenues of stability and growth amidst political event.

4. **Domestic Retail Participation: Shaping Equity Culture and Flows**
   A notable trend in the Indian equity market is the rising participation of domestic retail investors, catalyzed by technological advancements, financial literacy initiatives, and democratized access to financial markets. Empowered by online trading platforms and investor education resources, retail investors embrace equities as vehicles of wealth creation and financial empowerment. The surge in number of demat accounts and retail flows injects liquidity and vitality into the market ecosystem, exerting influence on price discovery, market dynamics, and investor behavior.

5. **Manufacturing and Capex Cycles: Charting Long-term Trajectories**
   The resurgence of the manufacturing and capital expenditure cycles reflects India's trajectory towards industrial revitalization, economic diversification, and infrastructural development. Stimulated by government initiatives, fiscal incentives, and sectoral reforms, the manufacturing sector embarks on a path of expansion, modernization, and global competitiveness. Capital expenditure, a key driver of industrial growth and productivity, underscores corporate confidence, investment appetite, and economic resilience, heralding prospects of sustained growth and development in the long term. Policy thrust is driving manufacturing capacity creation in areas of defense, mobile phones, semiconductors, solar panels and electric vehicles.

6. **FII Flows: Navigating Global Dynamics and Market Realities**
   Foreign Institutional Investors (FIIs) play a pivotal role in the Indian equity market, navigating currently through and uncertain and weaker global macroeconomic trends, geopolitical uncertainties, and market realities. India's attractiveness as an investment destination is based on factors such as economic stability, policy continuity, and structural reforms, as FIIs seek avenues of diversification, yield enhancement, and risk mitigation amidst a competitive/uncertain global landscape.

7. **PSU Stocks: Dynamics of Transformation and Value Discovery**
   Public Sector Undertakings (PSUs), intrinsic to India's economic fabric are undergoing transformational journeys amidst challenges of efficiency, governance, and market competitiveness. As engines of infrastructure development and public service delivery, PSUs are embrace capacity creation, digitization and strategic partnerships to enhance operational efficiency and shareholder value. Investors discern opportunities in PSU stocks, recognizing potential for value discovery, dividend yield, and long-term growth amidst regulatory reforms and sectoral realignments. In specific PSU banks have witnessed cleaning up of stressed loans while PSU power, defense & railways are expected to benefit from reforms and massive capex initiated. A large part of rally is however captured and one may only invest selectively with a 3-5 year view in psu pack.

Conclusion:

The upward trajectory of Indian equities is defying global trend and shaping pathways of growth, resilience, and prosperity in the journey ahead. The current rally may have short term hurdles and time correction, but what remains and lies ahead is the big picture of unlocking the full potential of the Indian corporate sector growth and its consequent positive effect on equity markets.

Financial Protection and Risk Transfer through Life Insurance

CMA Soumit Das
Chief Mentor - Financial Goal Achievers
Investment Planning – Retirement and Tax Planning – Risk and Estate Planning

It was a regular summer evening in Mumbai and I was driving back home from my Prabhadevi Office, while listening to the FM radio. The RJ was playing one of my favourite songs "Kal Ho Na Ho…", which got interrupted by a telephone call from my college buddy Sanjay Singh's wife. She informed me that Sanjay has met with a cardiac arrest and they are rushing him to a premium multi-specialty hospital in South Mumbai. I immediately changed direction of my car and headed towards the said Hospital. In the traffic snarl of Mumbai, it took quite a while for me to reach the hospital. By the time I reached hospital, the Team of Doctors attending Sanjay had already rushed him to the Operation Theatre (OT) to perform the required procedures. While I waited anxiously in the visitor's lobby along with Sanjay's family, we were informed that the heart by-pass surgery is underway to clear the massive arterial blockage that caused his heart attack. As we continued to wait in the lobby, praying for Sanjay's survival and recovery, my mind drifted away on a nostalgic trip to the college campus days. Sanjay was one of the sharpest guys in the batch at our prestigious college. He was not only a topper in academics, but was also a good cricketer and a guitarist who represented the college at various sports and events. After Graduation, Sanjay did CA and MBA before he

joined a leading Multinational Company in FMCG sector, as a Management Trainee. Sanjay became quite popular at work because of his pleasant personality, problem solving skills and helpful nature. His career progressed on a fast track and over the years he was promoted to Vice President – Finance. Sanjay was married to Preeti – a Marketing Professional, working with a leading Multinational Advertising Agency. They were blessed with two lovely children Shagun and Shaurya. Shagun was in class X and Shaurya was in class V, of a reputed school in Mumbai. As the clock ticked it's way past mid-night, we were getting restless for the surgical procedure to get over. The long surgery finally got over around 1:00 am. The Chief Cardiac Surgeon stepped out of the OT and briefed us that though the surgery was successful, but Sanjay was on ventilator and will take a while to gain consciousness. While we waited for the news of Sanjay to regain consciousness, the seconds turned into minutes and the minutes turned into hours. In the early hours of morning we were informed that Sanjay had passed into coma and moved from OT to ICU. While the medical team continued with their protocol of advanced medical procedures and we prayed throughout the day, Sanjay showed no signs of waking up. As the sun was setting that evening, the consulting Doctor stepped out of the ICU and declared that Sanjay was no more with us. The loss was so sudden and deep that I did not know what to do and how to respond to the situation of loss, grief and pain.

At a later date, during the course of Sanjay's Investment Portfolio review and discussion with Preeti, to plan the Family Cashflows in the absence of Sanjay, I found that Sanjay's portfolio was overweight on risky assets like Equity and ill-liquid assets like Real Estate. He did not have any Life Insurance policy when he died. Sanjay's incident is not a stray case and you may have experienced similar situations in your life, where you lost some loved one, who was young and not old enough to die. Death is a certain event of Life. Everyone who is born will die someday, only the Time of Death is uncertain and unknown.

Benjamin Franklin said "a policy of Life Insurance is the cheapest and safest mode of making a certain provision for one's family".

Life is uncertain and to cope with such Uncertainties of Life one needs Life Insurance. Life Insurance is needed for Financial Security of Family and Dependants. Financial Security comes from Protection of Income against Uncertainties of Life. Basically there are two Uncertainties associated with Human Life, as under :

- Risk of Dying Young
- Risk of Living Long

Risks associated with both these Uncertainties can be efficiently transferred through Life Insurance to an Insurance Company. Life Insurance is a Contract between a Policy Holder and an Insurance Company. Insurance Company pays out a sum of money either on the Death of the Insured Person or upon Maturity at the end of Policy Term. Life Insurance is purchased basically for 3 reasons as under :

- For Financial Security
- For Fulfilling Future Financial Goals
- For Add-On Features like Tax Saving, Accident Cover, Critical Illness Cover etc

Life Insurance is needed for Financial Security associated Loss of Income due to Untimely Death of the Bread Winner. Due to the Untimely Death of the Bread Winner, there is Loss of Income to the Dependent Family Members and they suffer a Huge Financial Loss. Such Financial Loss can be calculated through Human Life Value or HLV method. Human Life Value denotes the Loss of Income and Increase in Liabilities, that a Family would face in case of sudden demise of the Bread Winner.

The concept of Human Life Value or HLV was developed in 1924 by Dr. Solomon S Huebner of Wharton School of Finance and Commerce, University of Pennsylvania, USA. According to Prof. Huebner, a human Being is an Income Generating Asset. One's income generating ability depends on one's skills. The value of the asset can be measured by considering the income that is generated by the person concerned. The concept of Human Life Value provides a scientific way to determine the asset value of the human life and therefore the Life Insurance required. A simple method to measure Human Life Value is to capitalise the Annual Income a Family would like to have, even if the bread earner is no longer alive, with the rate of Interest that can be earned. Let's explain this through an example. Abhay earns Rs.1,50,000 per month and spends Rs.30,000 per month on himself. The net earnings his family would lose if he dies prematurely would be Rs.(1,50,000 – 30,000) = Rs.1,20,000 per month i.e Rs.14,40,000 per year. Suppose the Rate of Interest is 6% then Abhay's HLV = Rs.14,40,000 / 0.06 = Rs.2,40,00,000. So Abhay should buy Life Insurance policy with Sum Assured of at least Rs. 2,40,00,000.

Life Insurance is also needed for Financial Security associated with Living too Long. The Average Life Expectancy of an Indian at Birth in 1951 was just 41 years. Due to development in Medical Science, awareness about Good Health, adoption of Healthy Food and Lifestyle, have resulted in increase of Average Life Expectancy to 80 years. It is projected that Average Life Expectancy will increase to over 90

years by 2040. Normally people retire at the age of 60 years. The first and immediate impact of Retirement is Income generation Stops. Without any Regular Income in hand, is it possible to survive for the next 20 years ? It is suggested that during the Earning Span of Life, people should buy Life Insurance with Maturity Term matching with their Retirement Age. This will Assure that they will get a Maturity Amount in their hands , at the Time of their Retirement.

Life Insurance is the back bone of Financial Planning that provides Financial Protection to Family and Dependants at various Stages of Life. Life Insurance is also needed for fulfilling Life Goals and Financial Goals. Life becomes purposeful when we have Life Goals, which are translated into Financial Goals. Some of the common Financial Goals for an Individual includes Child's Education, Child's Marriage, Retirement Planning, Estate Creation etc. In this regard Life Insurance offers dual benefits of Financial Protection and Guaranteed Tax-Free Cashflow. Financial Protection ensures that our Financial Goals get fulfilled even if we are not there with our Family and Dependants tomorrow. Guaranteed Tax-Free Cashflow ensure timely availability of required funds to fulfil the Financial Goals.

Life Insurance industry has seen enormous innovations in product offerings over the last two centuries. The journey had begun with Death benefit products but over the years, multiple Living Benefits like Endowment, Accident and consequent Disability Benefit, Critical Illness Benefit etc. were added. Similarly, from a 'participating in Profit' traditional product, the innovations created 'Market Linked' policies, where the insured is invited to participate in choosing and managing their investment assets.

There are broadly four types of Life Insurance policies available in India. They are as under :

1. Term Plan – This is a pure Income Protection Plan with Death Benefit only. The policyholder chooses the Term of the Life Insurance, which should cover the Earning Years upto Retirement. Based on the Age and Health condition of the policy holder the Insurance Company decides the Premium, that includes Mortality Risk, Cost and Profit. The policy holder may decide to pay annual premium over the entire Term of Insurance or for a limited number of years or a single premium. Upon Death of the policy holder, the Life Insurance Company pays the Sum Assured to the Beneficiary of the policy holder. Term Plans are very useful for Financial Protection of Family and Protection against Loan Liability.

2. Endowment Plan – This is primarily a Savings Plan, which is protected by the provision of Insurance against the contingency of premature Death of the policy holder. Endowment Plan has both Death Benefit and Survival Benefit. This Plan is very useful to Protect and Achieve one's Financial Goals like Child's Higher Education, Child's Marriage and Retirement Planning. These are sure events where we know their time of occurence and the estimated amount required to achieve these Financial Goals. However, these Financial Goals may be challenged by market volatilities and life uncertainties like death, disease or disability. Accordingly, the policyholder may choose the Sum Assured and Term of the Life Insurance policy that would give them Tax-Free Maturity Return to fulfil their Financial Goal. Based on the Age and Health condition of the policy holder the Insurance Company decides the Premium, that includes Mortality Risk, Savings element, Cost and Profit. The policy holder may decide to pay annual premium over the entire Term of Insurance or for a limited number of years. Upon Death of the policy holder, the Life Insurance Company pays the Sum Assured and accrued Bonus to the Beneficiary of the policy holder. Upon Maturity of the Endowment Plan, the Life Insurance Company pays as Survival Benefit the Sum Assured plus all Guaranteed Additions and Accumulated Bonuses to the policy holder. These plans offer Assured Safe Returns to the policy holder to fulfil their Financial Goals, irrespective of uncertain life events like Death, Disease or Disability or Market Volatilities from Corrections and Recovery. This plan is extremely useful for Child's Higher Education Planning, as some Child Insurance plans provide for Death Benefit through cashflows to the child to complete their primary education till College Admission, in case of premature Death of the policyholder and then again Maturity Benefit during College Admission of the child. This plan is also very useful as a Retirement Planning tool, as policy holder can opt for Survival Benefit through Whole Life Cashflows along with Insurance Coverage. So upon Maturity of the policy, during the living years the policy holder enjoys Guaranteed and Tax-Free Cashflows and upon Death the

beneficiary receives the Insurance Benefit, like seamless Estate Transfer.

3. Money Back Plan – This is similar to an Endowment Plan with the provision for return of a part of the Sum Assured in periodic instalments during the Term and balance of the Sum Assured at the end of the Term. Survival Benefit are paid at the end of 5, 10 and 15 years through payment of Maturity Benefits plus Profits to the policy holder. Liquidity is the main feature of this Insurance Plan. This Plan is also very useful to Protect and Achieve one's Financial Goal like Child's Primary and Secondary Education.

4. Unit Linked Insurance Plan (ULIP) – Unit Linked policies provide the means for directly and immediately cashing on the benefits of a Life Insurer's Investment performance. These units are usually those of a specified pooled assets held by an authorised unit trust or a segregated fund managed by the Insurance company. Units may be purchased by payment of a single premium or regular premium payments over the Term of the Insurance policy. Based on the Age and Health condition of the policy holder the Insurance Company decides the Premium, that includes Mortality Risk, Investment element, Cost and Profit. Investment Fund options offered by ULIP includes Equity Fund (that primarily invests in Stocks) , Debt Fund (that primarily invests in Government and Corporate Bonds) , Balanced Fund (that primarily invests in a mix of Stocks and Bonds) and Money Market Fund (that primarily invests in Treasury Bill, Deposit Certificate, Commercial Paper etc.). These policies have provision to switch from one fund to another, if performance of one or more funds are not perceived to be upto the mark. Such Switch from one fund to another are without any Switching Charges or incidence of Tax. The Life Insurer while being expected to manage Investment portfolio efficiently, does not give any guarantee about the unit values. The Life Insurer is thus relieved of the greater part of the Investment Risk. The remaining Investment Risk is borne by the unit holder i.e. policy holder. However, the Life Insurer bears the Mortality and Expense Risk. Unlike conventional plans, ULIPs work on a minimum premium basis and not on Sum Assured. The insured decides on the amount of premium they want to contribute at regular intervals. Insurance cover is a multiple of the premium paid. In case of Death of the policyholder the Death Benefit would be higher of the Sum Assured or the Fund Value standing to the policyholder's account. The fund value is simply the Net Asset Value or NAV multiplied by the number of units in the policyholder's account. At the end of the Term the Maturity Benefit is paid to the policy holder which is Fund Value standing to the policyholder's account. In some ULIP plans, total units paid towards mortality charges every year, are redeemed to the policy holder along with the Maturity Benefits on survival. ULIPs are also very useful to Protect and Achieve one's Financial Goals like Child's Higher Education, Child's Marriage and Retirement Planning, as they Benefit policyholders with the Power of Compounding and Rupee Cost Averaging. They help policyholders to navigate through volatile markets towards their Financial Goals.

Life Insurance does not merely seek to protect individuals from premature Deaths. It can be applied for creation of Trusts with resultant Insurance benefits, it can be applied for creating a policy covering Key Personnel of industries and also for Redeeming Mortgages as follows :

1. Married Women's Property Act – Section 6 of the Married Women's Property Act, 1874 provides for security of benefits under a Life Insurance policy to the wife and children of the policyholder through creation of a Trust. The Trust is set-up under an irrevocable and non- amendable Trust Deed. In such cases, the Life Insurance policy will remain in a separate Trust, where either the wife or child (above 18 years of age) can be a Trustee. The policy shall be beyond the control of court attachments, creditors and even the life assured i.e. policyholder. The claimed money shall be paid to the Trustees. Creating a Trust ensures that the policy proceeds are invested wisely on behalf of the wife or during the minority years of the child and also secures the benefits against future creditors.

2. Keyman Insurance – This is described as an Insurance Policy taken out by a business, to compensate that business for financial losses that would arise from the death or extended incapacity of an important member of the business. A Keyman can be anyone directly associated with business like a Director, a

Partner, a Key Sales Person, a Key Project Manager, or someone whose specific skills or knowledge which is especially valuable to the company and whose loss can cause financial strain to the business. Keyman Insurance is a Term Insurance policy, where the Sum Assured is linked to the profitability of the company rather than the Key Person's own income. Such Insurance policies provide compensation for losses related to the extended period when a Keyperson is unable to work, to provide temporary personnel and if necessary to finance the recruitment and training of a replacement. Such Insurance also protects profits by off-setting lost income from lost sales, losses resulting from the delay or cancellation of any business project that the key person was involved in, loss of opportunity to expand, loss of specialised skills or knowledge.

3. Mortgage Redemption Insurance – This is an Insurance Policy that provides Financial Protection to Home Loan Borrowers. It is basically a decreasing Term Life Insurance Policy taken by a Mortgagor, for the Tenure of Mortgage, to repay the balance on a Mortgage Loan, if they die before it's full repayment. Such policies does not bear any surrender value or maturity benefits.

Taxation of Life Insurance: Life Insurance policies offer Maturity and Death Benefits and Tax Deductions under Section 80C and Section 10(10D) of the Income Tax Act, of 1961. Life Insurance premium paid to insure one's own life or the life of one's spouse or child, such premium payments are eligible for deduction under section 80C of the Income Tax Act. Irrespective of whether the child is dependent or independent, minor or major, married or unmarried, the deduction under section 80C shall be allowed. An individual can claim this deduction under Section 80C for Life Insurance premium paid up to Rs.1,50,000 every year. This deduction under Section 80C is available along with other eligible items like Provident Fund contribution, NSC, PPF, Fixed Deposits, ELSS, NPS, tuition fee paid, home loan repayment etc. The amount received on the Death of the Insured or Maturity of the Life Insurance policy, is exempt from tax under Section 10(10D). However, in case of Unit Linked Insurance Policies or ULIPs, the Maturity Benefit is Taxable where premium payable for any year during the policy term exceeds Rs.2,50,000. In case of Endowment Policies, the Maturity Benefit is Taxable where premium payable for any year during the policy term exceeds Rs.5,00,000.

In the conclusion, I would like to share the words of wisdom by Jim Rohn, who said that Life Insurance is just Risk Management, where Risk is Transferred from Families and Businesses who can't afford it, to Insurance companies who can afford it. While educating prospects he said that at your age out of every 100 people, one of you will die this year and the Insurance company does not care if you are the one, because 99 is to pay the premium and they have lost just 1%. But if you are the one, the loss to your family or to your business is 100%. Let's pass the Risk from your family or business who can't afford it, to the Insurance company who can afford it.
Stay Insured. Stay Secured.

Disclaimer : Insurance is a matter of solicitation. Please consult your Insurance Advisor before buying.

Digital Transformation: An inevitable agenda for MSMEs to survive, surge head, & succeed

Ms. Sumitra Raghavan
Former Chief Manager
Bank of Baroda

The MSME sector plays a pivotal role in a country like India, with a population size of approximately 1.33 billion. It fosters the growth of entrepreneurship and opportunities for employment. This sector reduces the problem of disguised unemployment by absorbing the agricultural labourers during the lean season. This segment also extends support to large industries in the form of ancillary units and plays a significant role in the entire value chain of the business. The sector contributes towards the rural population's economic empowerment and social inclusion, as almost 51% of the MSMEs are based in rural India. They are engaged in diversified fields ranging from traditional rural handicrafts to technology-oriented industrial units. The segment is essential for growth with equity and inclusion.

The percentage share of Micro, Small and Medium Enterprises (MSME) related products in the total Exports of the country was 49.81% as per the data from the Directorate General of Commercial Intelligence & Statistics (DGCI&S)

The significance of this sector is evident from the numerous government initiatives taken to boost its growth, the most significant being the revision of the definition of MSMEs. Global trends in classifying MSMEs revealed that most countries use major parameters like the number of employees, net worth, turnover, capital employed, etc., to define MSMEs. To facilitate ease of doing business, the government of India revised the definition of MSMEs via the Gazette Notification S.O. 2119 (E) dated June 26, 2020. Accordingly, the definition of MSMEs is mentioned in the table given below:

Existing and Revised Definition of MSMEs

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment<Rs. 25 lac	Investment<Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment<Rs. 10 lac	Investment< Rs. 2 cr.	Investment<Rs. 5 cr.

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover < Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs. 20 cr. and Turnover < Rs.100 cr.

Figure 1 Definition of MSME

The revised definition was in fact necessary considering the changes in the economic scenario. The new definition is progressive, rational, transparent, and easier to implement considering that turnover can be ascertained from the entity's GST returns. The registration under GST has also led to the formalization of the MSME Sector to a certain extent.

Despite this segment's notable contribution to the economy, it could not evolve as a robust, resilient player, setting a landmark for itself. MSMEs confront several challenges, the major ones being the availability of low-cost credit facilities, procurement of raw materials, inertia to technology adoption, capacity building, supply chain disruption, and the perennial problem of delayed payments. Creating an environment for their next growth level is yet to be accomplished.

Seizing opportunities from digitalization

Digitalization is not about technology implementation; it encompasses the transformation of business using technology to make work simpler, more cost-effective, and more efficient.

Being digital is becoming a way of life. When billions of people wake up in the morning, instead of brushing their teeth, they prefer to scroll through their mobiles to check updates on Whatsapp, Facebook, or e-mail notifications. The opportunities provided by digitalisation are compelling business entities to look at their business models from different angles.

With the help of digitalisation infrastructure, one can reposition the risk of business by improving the reach beyond geographical boundaries and thereby reduce dependency on a handful of customers. The era of invisible networks has created a new market for the economy. Information rushes through the networks in the blink of an eye; customers can pick and choose any services or products from across the globe. This new digital business model would overthrow the old way of doing business; it is time to embrace the change or to become obsolete.

Indian MSMEs & digitalisation

The MSME sector is yet to benefit from the advances in digital space. For several reasons they are unable to unlock the digital dividend for their benefit. Anxiety and confusion about how digitalisation will impact my business, how much amount will be required for the digitalisation, what if my organisation fails to implement it successfully etc and more such questions are gripping the MSMEs into inaction.

Given the present scenario, more and more customers are shifting to online platforms which are providing opportunities for MSMEs to transform and build on digitalisation of their businesses.

According to the Indian MSME Impact report , out of 63 million MSMEs in India, 62 percent are still offline .The need of the hour is to have website of each MSME that showcases products and services and also have the facility to accept payment online. An online presence remains the most effective method of understanding and responding to customers' needs now and in the future.

Yes Bank conducted a study on the impact of digitalization on MSMEs, according to which only 5% of over 2700 MSMEs surveyed embraced complete digitalisation, even though over 60% of them were digitally enabled. Thus, it can be extrapolated that not only the availability of digital infrastructure but also the need for technical know-how and skilled resources are impediments to the adoption of the digital framework. However, those digitally empowered MSMEs benefited through increased earrings, enhanced customer engagements and better operational efficiencies.

Digitalisation provides the opportunity to thrive on enriched data and thereby take corrective actions on time.

Why Digitalisation is a challenge for MSMEs?

1. **Digital Literacy:** Digital transformation requires cultural and behavioural changes such as new way of approaching customers, monitoring the digital behaviour of the customers, keeping customers engaged using digital marketing, increased collaboration with tech savvy entities etc. It is very much important to develop a mindset to embrace the change. Digital literacy is the primary step towards ultimate goal of embracing the change and reinforcing new behaviours and way of working through the digital platforms. **The term "digital literacy" means ability to use information and communication technologies to find, evaluate, create and communicate information using both analytical and technical skills. It is defined as, "the ability of individuals and communities to understand and use digital technologies for meaningful actions within life situations" This is as per guidelines of "Pradhan Mantri Gramin Digital Saksharta Abhiyan" (PMGDISHA) scheme.**

As per report of Digital Empowerment Foundation, in 2018 about 90% of the population in India was digitally illiterate.

2. **Denial from workforce**: Worries about being replaced by young tech-savvy staff, or machines are

reasons enough to protest against digitalisation by the workforce. They fear that they may lose jobs and it is a threat to their autonomy. Insecurity and anxiety about unknown may even lead to sabotage the process of digital transformation.

3. **Switching Cost**: Majority of the MSMEs operate on a thin margin with limited capital. These units do not have easy access to formal credit system. Most of the firms run their business out of their own investment or borrowing money from friends and family. These entities feel that digital transformation requires big budget and therefore there is dormancy towards digitalisation

4**. Loss of revenue from non-digital customers:** Digitalisation is often considered as a cannibal that will eat away the share of business contributed by non-digital customers.

5.**Cyber Security:** An unsafe online environment presents another challenge in adopting a digital framework. Hacking, intellectual property infringement, and other threats pose major threats.

6**. Inconsistency in customer quality and digital agenda:** The real meaning of digitalisation is often misinterpreted. Business units assume that digital transformation means using some digital tools along with the traditional business model.

They fail to understand that it is not a momentary event but something that they have to sustain over the years.

Digital engagement levels of MSMEs in India:

The series of struggles which the MSMEs face leads to obstructions in their way to transformation. They try to adopt reform measures using a trial-and-error approach. They experiment and mend things and often come across crossroads. In this process, some reach the final destination, some struggle in the initial stage, while the rest reach the midway and thrive to improve with perseverance and zeal.

The engagement level of MSMEs can be categorized as under:

Offline: MSMEs which do not use computers or social media platforms and have no access to the internet.

Connected: Those MSMEs that have preliminary knowledge of digital platforms and are using a minimal level of digital channels like e-mails, search engines, etc., but they do not use digital channels formally.

Enabled: These entities have corporate e-mail IDs, a website, and a social media presence to maintain relations with their clients. They understand the market using digital platforms.

Engaged: These segments of MSMEs are tech-savvy and proficient in digital tools, the predominant volume of their business activity is executed through digital platforms.

At present, over 80% of the MSMEs belong to the offline and connected engagement level.

Way Forward

The real digital transformation is about breaking down barriers and leveraging technology for increased earnings and profitability. There is a need for effective integration between the technology and all the business's key resources.

Acquiring Digital IQ: Acquisition of Digital IQ or Digital maturity is necessary to reap the benefits of digitalization. It measures the organisation’s ability to harness growth and profitability from a digital framework. The journey towards digital agility is not a one-time moment but a continuous and enduring process. It is beyond a statement like, “We want to go paperless”. The management must be clear about the specifics of the organisation, assess the effect of transformation on the culture and commercial side of the business and align the digital objective with the mission of the business entity.

Shift in the mindset & culture change: Regardless of the effectiveness of the digital mission, it will be truly successful if there has been a shift in the mindset of the entire workforce of the organisation. The employees should be directly involved in the transformation process. It is inevitable to win the confidence of the human resource of the entity for embarking on the new journey. The leader must set an example by getting actively involved in the process. Give insight to the employees what the customers want from them.

Identify the gaps: It is vital to maintain close connection with the world outside the organisation to understand the external needs, temperament of the customers and strategies adopted by the competitors in the market. It is essential to develop meaningful connections with the customers to understand the digital experience they value. From the customers' needs, identify the digital model that will suitably bridge the gaps of unmet customer expectations. Some methods to identify the gaps can be to host a virtual event for the customers to get their feedback, experience the digital products used by the customers, etc.

Leveraging Government Schemes: The Government is introducing several schemes and incentives for MSMEs who want to adopt digitalisation. It is important to be aware about such measures and take maximum benefit of it. ZED is one such scheme to encourage MSMEs to adopt quality tools/ systems and energy-efficient manufacturing processes.

Route to transformation: The path for digitalization is full of unknown. There may be hundreds of ways to accomplish the same goals, therefore, finding the right method that suits the dynamics of the organisation and best delivers the outcome that business needs, is very important.

Others: Some of the other vital measures for successful digital transformations are consistency in plan, establishing a flexible framework, and taking a collaborative approach with expert service providers like digital hubs and start-up support systems.

Transformation isn't just an agenda; it must become a natural way of working of the entity. The emerging technologies must be the core competencies of the organisation. The wings of transformation are born with patience and struggle. It is a journey without a final destination. It is vital to embrace the challenges to make the trip meaningful and effective for the business.

CERT-In Serves Cyber Security

Shri Nagarjun K
Deputy Manager
State Bank of India
Gannavaram, Vijayawada

CERT-In, the Indian Computer Emergency Response Team, functions as the designated National Agency for various Cyber Security tasks in accordance with Section 70B of the Information Technology Act, 2000.

It falls under the jurisdiction of the Ministry of Electronics and Information Technology (MeitY). Regularly, CERT-In releases advisories to organizations and users, enabling them to safeguard their data, information, and ICT infrastructure.

Additionally, CERT-In engages in co-ordinating response activities and emergency measures pertaining to Cyber Security incidents by seeking information from Service Providers, Intermediaries, Data Centers, and Body Corporates.

CERT-In has been actively functioning since January 2004 and has played a Crucial Role in addressing Cybersecurity Issues. It has detected significant vulnerabilities, such as the VPN functionality flaw in Android Jelly Bean in March 2014. CERT-In's Empanelled Auditors List, which includes Security Brigade, demonstrates their Expertise in Conducting Information Security Audits for Websites, Networks, and Applications. CERT-In is responsible for a wide range of activities, from being the Primary Responder to Cybersecurity Crises to providing Educational Initiatives to various stakeholders on the best practices for securing the Nation's Cyber Infrastructure. While CERT-In has made significant contributions, there is still room for improvement in certain areas.

It serves as a Central Point for reporting incidents and provides 24/7 Security Service. CERT-In continuously analyses cyber threats, managing and addressing cyber incidents that come to its attention. Furthermore, it enhances the security defenses of the Indian Internet domain. CERT-In plays a leading Role in implementing the Cyber Crisis Management Plan (CCMP) across Central Government Ministries / Departments, States, and Critical Organizations within the Indian Cyberspace. The CCMP serves as a framework document for dealing with cyber-related incidents, including Cyber-attacks and Cyber Terrorism. CERT-In's functions, as designated in the IT Amendment Act 2008, include the Collection, Analysis, and Dissemination of information on Cyber Incidents. It also provides forecasts and alerts regarding cyber security incidents, as well as emergency measures for handling such incidents.

Furthermore, CERT-In Co-ordinates Cyber incident response activities and Issues Guidelines, Advisories, Vulnerability Notes, and Whitepapers related to Information Security Practices, Procedures, Prevention, Response, and Reporting of Cyber Incidents. Additionally, CERT-In may perform any other functions prescribed in relation to Cyber Security.

Cyber Attacks - Levels of concern

Threat Level	Condition
Level 1 Guarded Scope: Individual Organisation	Large scale attacks on the IT infrastructure of an organisation
Level 2 Elevated Scope: Multiple Organisations	Simultaneous large scale attacks onto IT infrastructure of multiple organisations
Level 3 Heightened Scope: State/Multiple States	Cyber attacks on infrastructure of critical sector and Government across a state or multiple states
Level 4 Serious Scope: Entire Nation	Cyber attacks on infrastructure of critical sector and Government across the nation.

Cert-In Functions:

≈ The Gathering, Analysis, and Dissemination of Information on Cyber events are carried out by CERT-In for Cyber Security Work.

≈ CERT-In is responsible for forecasting and alerting on Cyber Security Incidents.

≈ Emergency response procedures for Cyber Security issues are implemented by CERT-In.

≈ The Co-ordination of Operations related to Cyber incidents is managed by CERT-In.

≈ CERT-In publishes Guidelines, Advisories, Vulnerability Notes, and Whitepapers on Information Security Policies, Processes, Incident Prevention, Response, and Reporting.

In April 2022, CERT-In issued Directives pertaining to the implementation of information security procedures, protocols, pre-emptive measures, incident response strategies, and the reporting of Cyber Incidents in order to ensure a Secure and Trustworthy Internet Environment.

To facilitate the prompt handling of Cyber Incidents, CERT-In issued directives addressing various aspects of Information Security Practices, including the Synchronization of ICT System Clocks, Mandatory Reporting of Cyber Incidents to CERT-In within a six-hour timeframe, the maintenance of ICT system logs for a period of 180 days, and the requirement for Data Centers, Virtual Private Server (VPS) Providers, VPN Service Providers, and Cloud Service Providers to Register subscriber and Customer Details. Additionally, the directives also emphasize the importance of implementing Know Your Customer (KYC) Norms and Practices for virtual asset service providers, Virtual Asset Exchange Providers, and Custodian Wallet Providers. These directives aim to enhance the overall Cybersecurity Posture and ensure a Safe and Trusted Internet Environment in the Country.

Cert-In Support to Banking Sector

CERT-In has been engaged in various Awareness and Training initiatives in Collaboration with the Reserve Bank of India (RBI) and the Institute for Development & Research in Banking Technology (IDRBT) to enhance the security of the financial sector against the growing threat of Cyber Attacks. The Agency acknowledges that with the increasing Utilization of Technologies such as Robotics, Blockchain, Internet of Things (IoT),

Analytics, and Chatbots in Digital Payment Services, it is imperative to bolster security measures in order to ensure that these services are not only efficient and affordable, but also secure.

Over the past two years, CERT-In has dedicated significant efforts to secure the financial sector. While the agency also works to protect other sectors, it has conducted numerous security audits, drills, and awareness programs specifically for the financial sector, involving 38 commercial banks. Bahl emphasizes that this undertaking has strained their resources due to the sheer scale of the exercise in a country like India.

Through collaborative efforts between CERT-In, Internet Service Providers (ISPs), and the 38 participating banks, there has been a substantial reduction of 84 percent in malware attacks and 84.3 percent in vulnerable services that are susceptible to exploitation by hackers. CERT-In's services are freely available to any bank, and he encourages further collaboration within the Financial Technology (FinTech) sector. He also notes an increase in the reporting of breach incidents among banks and financial institutions.

The growth of digital payment systems and financial services has been remarkable in recent decades. These systems have become an integral part of the technology-driven global economy, promoting cashless transactions and contributing to India's transition into a less cash-dependent society. Today, there are various modes of digital payments available, and the fin-tech landscape in India is focused on making financial services more accessible, affordable, secure, mobile, and efficient.

However, there is a perception that the adoption of advanced cybersecurity practices has not kept pace with the rapid evolution of core business-enabling technology. Although banks are considered more proactive in investing in and enhancing security practices compared to other sectors, it is still believed that these measures may be insufficient due to the limitations of the traditional approach to IT security.

With the increasing sophistication of threats, ransomware and Trojans have become common place, often attributed to phishing emails. A holistic approach is required to address these challenges. As organizations undergo digital transformations, process automation becomes crucial in understanding the digital ecosystem and mitigating cyber-attacks. The lack of process automation is identified as a contributing factor to the rise in cyber-attacks.

It Collaborates with various entities such as WhatsApp, Facebook, and other Stakeholders to Mitigate Cyber Threats and enhance the security of the Indian Internet Domain. CERT-In operates within the Framework of the Information Technology Act of 2000, specifically under Section 70B, which designates it as the Nodal Agency for responding to Cyber Threats such as Hacking and Phishing.

WhatsApp Users:

≈ In recent cases, CERT-In has issued an advisory to WhatsApp users in India regarding Vulnerabilities in the Messaging Platform that could lead to the Compromise of Sensitive user Data and Personal Information. According to CERT-In, these Vulnerabilities were found in Specific Versions of WhatsApp and WhatsApp Business for Android and iOS. The Weaknesses in WhatsApp are due to a Cache Configuration Issue and a Missing Audio Decoding Pipeline, which could allow Hackers to execute arbitrary code or access sensitive information on a targeted machine. To mitigate the Risk, the Government's Cybersecurity Agency has advised users to update their WhatsApp Applications to the Latest Versions on Android and iOS. This is not the first time CERT-In has issued a High Severity Advisory, Warning Users of Vulnerabilities in the instant Messaging Platform. CERT-In had previously alerted WhatsApp users to a buffer overflow vulnerability, which allowed Attackers to remotely target a machine using a Specially designed MP4 Audio or Video File.

Facebook Users:

≈ CERT-In has also Advised Facebook users to Protect their Profile details after it was discovered that personally identifiable information of 533 million Facebook users Worldwide, including 6.1 million Users in India, was allegedly leaked on the Internet and freely Distributed on Cyber-attack Forums. The Computer Emergency Response Team issued a Warning stating that a Large-scale breach of Facebook Profile Information had occurred Globally. The Leaked Data includes email Addresses, Profile IDs, Full Names, Work Titles, Phone Numbers, and Birth Dates. According to Facebook, the scraped data does not include Financial, Health, or Password information. Furthermore, the Company stated that threat actors scraped this data prior to September 2019 using Facebook's "Contact Importer" tool, which allows users to find other members through their Phone Numbers.

Conclusion:

The Indian Computer Emergency Response Team (CERT-In) has established Agreements with Counterparts in Malaysia, Singapore, and Japan in order to Enhance Cyber Security. These Memorandums of Understanding (MoUs) Aim to Promote increased Collaboration between India and the Three Countries in terms of Exchanging Information and Knowledge regarding the Identification, Resolution, and Prevention of Surveillance Incidents. CERT-In's Primary objective is to enhance the Effectiveness of Cyber Security in the Nation and endeavors to counter and Address Cyber Threats. The proactive efforts of the Indian Computer Emergency Response Team (CERT) in promoting and advancing cybersecurity in the financial sector have been commendable. Recognizing the rapid adoption of newer technologies and digital channels by the banking sector in India, the government is taking steps to establish a financial CERT to address the growing cyber threats faced by the country's financial institutions. Furthermore, the shift in customer preferences towards digital platforms necessitates the implementation of robust cybersecurity measures.

e₹ Rupee Programmability

CMA Debaraja Sahu
Practicing Cost Accountant
Hyderabad

India had its own digital money, just like the coins and notes we use, but we can't touch it because it's all online. That's what the Reserve Bank of India (RBI) did by creating the e-Rupee around a year back.

The e-Rupee is like Digital Cash that the RBI makes sure is safe to use. It is designed to help more people use money online, even if they don't have a Bank Account. and it can bring about a change in India's Digitisation.

Birth of e₹:

e₹ is a Special Kind of Digital Money called Central Bank Digital Currency (CBDC).

It is the RBI's digital version of our everyday rupees. We can use it easily with mobile phones or computers, and since the RBI backs it, it's safe. A year ago, the RBI introduced the e₹ as a pilot run, in smaller groups, to test the waters and to see how businesses and people are adopting to the concept. Government of India discussed the idea of having CBDC as a counter to the growing popularity of Cryptocurrencies, which as per the RBI as well as the government, has the potential to be used for Criminal Activities. And after researching the feasibility, the Central Bank launched the abovementioned Pilot Programme for the e-Rupee which commenced in December 2022.

The rolled-out e-Rupee has unique characteristics: it is a legal tender and is designed for easy Accessibility, ensuring that anyone with a Mobile Device can use it, even without a Bank Account. It is available in both Wholesale and Retail formats, thereby catering to a Wide Range of transactions, from Interbank Settlements to Consumer Purchases. It is also different from Cryptocurrencies in that it has a Centralised Ownership i.e. the Reserve Bank of India. And unlike UPI, the e-rupee isn't a Digital Payment Interface, rather it in itself is Cash. It was a success as the Reserve Bank of India met its Target of 1 Million Daily e-rupee Transactions by the end of 2023.

Recent Development and the Subject of Interest is its Programmability. The declining use of cash and its impact on payment systems necessitate central banks to assume a more active role, given their crucial position in this domain

Programmability:

After the Pilot Run, the RBI now wants to take the e-Rupee to the next level. And this Next Step is the Programmability of e-Rupee. RBI Governor Shaktikanta Das said that the Reserve Bank of India has introduced programmability and off-line functionality in its CBDC (Retail) Pilot. Further RBI added that Programmability will enable users, like Government Agencies, to ensure Payments are made for Defined Benefits.

One of the Coolest things about the e-Rupee is that it can be programmed. Programmability in the context of the e-Rupee refers to the ability to embed Smart Contracts into Transactions, enabling the Digital Currency to execute pre-defined actions under certain conditions. This means the Reserve Bank of India can set Rules for how the e-rupee is Used, Allocated and Controlled.

For Example: It could make a Special kind of e-Rupee that we can only Spend on Food or Education. Or say, Corporates will be able to Programme specified Expenditures, like Business Travel, for Employees with this Feature. Apart from this, features like Validity Periods or Geographical Areas within which the CBDC may be used can also be Programmed. This helps make sure Money is used where it is needed.

This level of Control and Flexibility is a First-time for Traditional Currencies and it could Revolutionize how Policies and Financial Interventions are implemented. Moreover, the programmable features of the e-Rupee could enhance transparency and efficiency in financial transactions. By Automating Payments and ensuring they are executed only when certain criteria are met, the e-Rupee can reduce the Risk of Fraud, Eliminate Intermediaries, and Streamline the Process of Financial

Compliance. With Programmable E-Rupee, the Reserve Bank of India can do more to Help the Economy. Instead of using Monetary Policy measures to adjust Interest Rates to Change the Economic Tone, it can Send Money directly to people or businesses and make sure it's Spent in Desired Ways. It could be a way for the Reserve Bank of India to manage the Country's Money and make sure it's doing the best. Programmability also brings Some Challenges with it.

Currently, the CBDC Retail (CBDC-R) pilot also allows Person to Person (P2P) and Person to Merchant (P2M) transactions using Digital Rupee wallets provided by pilot banks.

"Imagine a situation later on, when CBDC is fully implemented. If the government wants to give some cash support to certain individuals for a specific purpose, programmability will be useful so that the money can be used for specified purposes".

Programmability will permit users like, for instance, government agencies, to ensure that payments are made for defined benefits. Similarly, corporates will be able to programme specified expenditures like business travel for their employees. Additional features such as validity period or geographical areas within which CBDC may be used can also be programmed.

For offline functionality, multiple offline solutions (proximity and non-proximity based) across hilly areas, rural and urban locations will be tested for this purpose, the central bank said, adding that these functionalities will be introduced through the pilots in a gradual manner.

The major challenge for CBDC was that it was looking to address payments use cases (P2P and P2M) that have already been largely solved by UPI or other digital payment modes. The new use cases will make CBDC more useful, as both offline payments and purpose specific payments need newer innovations to be successful. While e-rupee and offline UPI exist as products, there is a lot of headroom for growth, which can come via CBDC. Merging the two new use cases can allow more efficient distribution of government subsidies in remote areas.

Programmability and offline functionality in CBDC Retail (CBDC-R) promise speed, security, and convenience for users. Faster transactions, both online and offline, will be possible with programmable features and secure offline options. This visionary move empowers users with flexibility and ease, boosting India's fintech ecosystem.

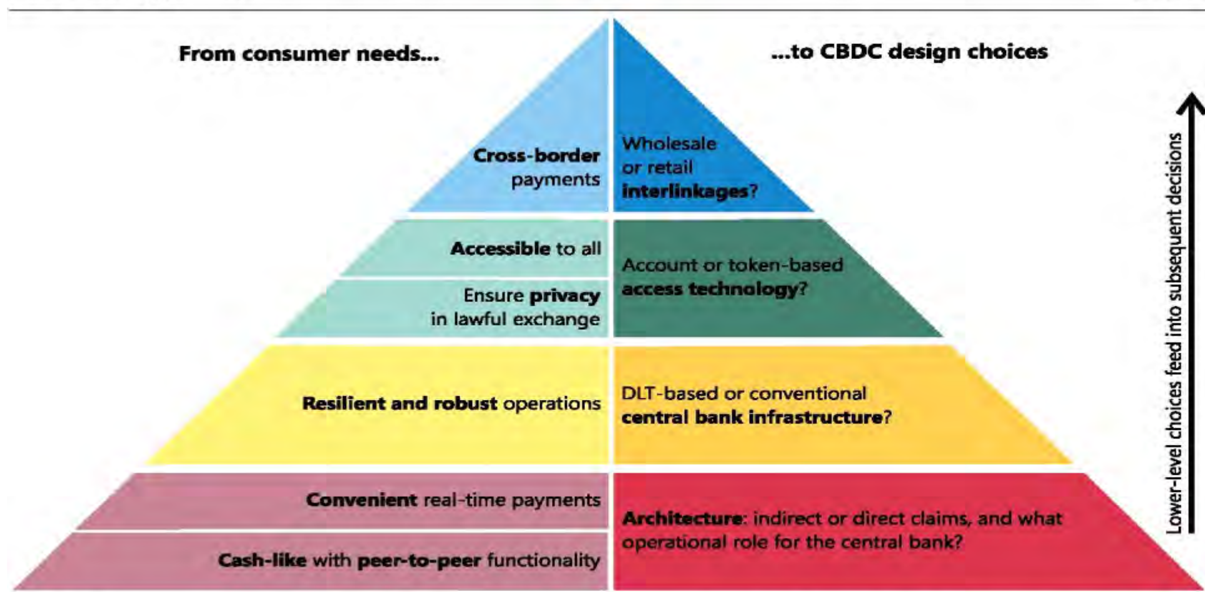
From Consumer Needs to Design Choices-The CBDC Pyramid:

The left-hand side of the CBDC pyramid illustrates these consumer needs along with six associated features that would make a CBDC advantageous. These features include cash-like peer-to-peer usability, convenient real-time payments, payments security, privacy, wide accessibility, and ease of use in cross-border payments. On the other hand, the right-hand side of the pyramid presents the corresponding design choices.

The foremost need of consumers is for the CBDC to embody a cash-like claim on the central bank. Ideally, this claim should be transferable in peer-to-peer settings. Currently, even consumers who typically prefer electronic payments are confident that they can convert their electronic money holdings into cash if a financial crisis were to arise. The main concern is that if cash were to no longer be universally accepted in the future, a severe financial crisis could disrupt day-to-day business and retail transactions, leading to further chaos.

Simultaneously, consumers are unlikely to adopt a CBDC if it is less convenient to use compared to existing electronic payment methods. Banks and payment service providers possess sophisticated infrastructures capable of handling peak demand. Additionally, intermediaries play a role in ensuring smooth payment flow by assuming risks during connectivity breaks or offline payments.

The consumer's requirement for cash-like payment safety necessitates that a CBDC must be secure not only from the insolvency or technical glitches of intermediaries but also from outages at the central bank.



The CBDC pyramid maps consumer needs (left-hand side) onto the associated design choices for the central bank (right-hand side). The four layers of the right-hand side form a hierarchy in which the lower layers represent design choices that feed into subsequent, higher-level decisions.

Source: Authors' elaboration.

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Challenges and Considerations of Programmability:

Even though the e-Rupee has a Lot of Benefits, there are Some Challenges too.

a) **Privacy and Surveillance Concerns**: The ability to program and track Digital Currency Transactions raises Privacy Issues. Programmability could enable Surveillance, allowing Authorities to monitor Spending Patterns in Real-time.

b) **Security Risks**: The Introduction of Smart Contracts and Programmable Functions could increase the attack Surface for potential Cyber Threats.

c) **Digital Literacy and Accessibility**: While the e-Rupee Aims to enhance Financial Inclusion, its success is contingent on widespread **Digital Literacy** and access to technology. Bridging the digital divide is crucial to ensure that the benefits of Programmable Money reach all Segments of the Population, especially in Rural and Underserved areas.

d) **Regulatory and Ethical Implications**: Programmable Money poses regulatory challenges, including the Ethical Considerations of Restricting How and where money can be spent.

e) **Fungibility Concerns**: Some Experts Worry this might impact the fungibility of the e-Rupee its ability to be interchangeable with other units of the same value if certain units are programmed with restrictions that others do not have.

The Reserve Bank of India is Working on these issues to make sure the e-Rupee works well for everyone. Despite these Challenges, the Potential Benefits of the e-Rupee enhanced Efficiency, Financial Inclusion, and the Ability to Conduct targeted Economic Interventions present a compelling case for its development.

Conclusion:

The e-Rupee is a big step forward for India, making Money Easier and Safer to use for everyone. It's like having Digital Cash that we can use with our Mobile Phone. The journey of the e-Rupee is just one chapter in the broader narrative of digital currencies' role in shaping the future of global finance. It is an exciting time for India's Money, and there's a lot more to learn and explore. The Reserve Bank of India plans to introduce additional functionalities of programmability in CBDC retail payments to facilitate transactions for specific / targeted purposes, and allow offline capability to enable these transactions in areas with poor or limited Internet connectivity.

DO YOU KNOW IFSCA?

(International Financial Services Centre Authority)

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

The International Financial Services Centres Authority (IFSCA) was established by the Government of India to develop and regulate International Financial Services Centres in the country. Gift City is India's first IFSC being developed.

It was established in April 2020 under the International Financial Services Centres Authority Act, 2019. It is Headquartered at GIFT City, Gandhinagar in Gujarat.

The Authority shall regulate all such financial services, financial products and Financial Institutions in an IFSC. It may also recommend to the Central Government such other Financial Products, Financial Services and Financial Institutions which may be permitted in the IFSCs. All powers exercisable by the respective Financial Sector Regulatory (viz. Reserve Bank of India, Securities and Exchange Board of India, IRDAI, and Pension Fund and Regulatory Development Authority etc.) under the respective Acts shall be solely exercised by the Authority in the IFSCs in so far as the regulation of Financial Products, Financial Services and Financial Institutions that are permitted in the IFSC are concerned.

The Processes and Procedures to be followed by the Authority shall be governed in accordance with the provisions of the respective Acts of Parliament of India applicable to such Financial Products, Services or Institutions, as the case may be. The Central Govt. may, after due appropriation made by Parliament by law on this behalf, make to the Authority grants of such sums of money as the Central Government may think fit for being utilized for the purposes of the Authority. The transactions of Financial Services in the IFSCs shall be done in the Foreign Currency as specified by the Authority in Consultation with the Central Govt.

About GIFT City:

GIFT (Gujarat International Finance Tec-City) City is located in Gandhinagar, Gujarat. It consists of a Multi-service Special Economic Zone (SEZ), which Houses India's First International Financial Services Centre (IFSC) and an Exclusive Domestic Tariff Area (DTA).

GIFT City (Gujarat International Finance Tec-City) is envisaged as an Integrated Hub for Financial and Technology Services not just for India but for the World. IFSCA is the Unified Regulator for the Development and Regulation of Financial Products, Financial Services and Financial Institutions in International Financial Services Centres (IFSCs) in India. The Social Infrastructure in the City includes a School, Medical Facilities, Hospital, GIFT City Business Club with Indoor and Outdoor Sports facilities.

Currently, there is only One IFSC being Developed in India. Before the IFSCA was Established, the Financial Services and Institutions were regulated by the Domestic Financial Regulators such as SEBI, RBI, IRDAI, PFRDA, etc. The main goal of the IFSCA is to Promote

"Ease of Doing Business" in IFSC and provide a World Class Regulatory Environment. The IFSCA will not only Regulate the Nature of Business which will be transacted in the IFSC but will also be regulating the functioning of the entities involved with transacting business in IFSC.

The IFSCA consists of **Nine Members** Appointed by Government of India. The Members are:

- ✓ Chairperson.
- ✓ 1 member from RBI.
- ✓ 1 member from SEBI.
- ✓ 1 member from PFRDA.
- ✓ 1 member from IRDAI.
- ✓ 2 members from the Finance Ministry.
- ✓ 2 members appointed on recommendation of a Selection Committee.

The Term of each Member is Three Years subject to reappointment.

An International Financial Services Centre (IFSC) is a Financial Centre that caters to Customers **Outside the Jurisdiction of the Domestic Economy**. It is also known as an offshore Financial Centre since it deals with flow of finance, financial products and services across borders. An IFSC is, thus, a jurisdiction that provides world class financial services to Non-residents and Residents, to the extent permissible under the current regulations, in a Currency other than the Domestic Currency of the Location where the IFSC is located.

Examples of existing International or Global Financial Centres like:

- ✓ London.
- ✓ Singapore and
- ✓ New York.

Shanghai and Dubai are budding IFSCs.

They seek to attract overseas investors by bringing financial services that are currently being carried outside India by Overseas Financial Institutions. In this age of globalization, IFSCs serve many purposes including Fundraising, Global Tax Management and Corporate Treasury Management. An IFSC facilitates the rerouting of Financial Services and Transactions that are Currently carried out in Offshore Financial Centres by Indian Corporate Entities and Overseas Branches / Subsidiaries of Financial Institutions (Such as Banks, Insurance Companies, etc.) to India. The Business and Regulatory Environment offered by an IFSC in India would be Comparable to that of London, New York, etc. attracting Investors.

It can also provide enhanced access to Global Financial Markets for Indian Corporates. There are also many "Tax Benefits" for Entities set up in the IFSC. IFSCs help in the Creation of Fintech Hubs. With a Large number of Indians Outside India Working in FinTech's, India can be positioned as a Fintech Hub.

- ✓ Fund Raising Services for Corporations, Individuals and Governments.
- ✓ Wealth Management.
- ✓ Asset Management and Global Portfolio Diversification undertaken by Pension / Mutual Funds and Insurance Firms.
- ✓ Global Tax Management and Cross-border Tax Liability Optimisation, Providing a Business Opportunity for Financial Intermediaries, Law Firms and Accountants.
- ✓ Risk Management Operations (Insurance and Re-insurance).
- ✓ Global and Regional Corporate Treasury Management Operations.
- ✓ Mergers and Acquisitions between Trans-national Corporations.

IFSCs have Six Major Building Blocks as seen in the Shanghai International Financial Centre and the Dubai International Financial Centre, both of which are located within Special Economic Zones (SEZs).

- ✓ Rational Legal Regulatory Framework.
- ✓ Sustainable Local Economy.
- ✓ Stable Political Environment.
- ✓ Developed Infrastructure.
- ✓ Strategic Location.
- ✓ Good Quality of Life.

The Special Economic Zone Act, 2005 provides for the establishment of an IFSC in India. It would be prudent to set up an IFSC within an SEZ since there are several restrictions on the financial sector in India. An SEZ can serve as a testing ground for financial sector reforms before they are rolled out in the entire nation. As per the SEZ Act, the government approved GIFT City as a Multi Services Special Economic Zone ("**GIFT SEZ**") in Gandhinagar.

There are Three Models of IFSCs Currently:

Model 1:
Full-service finance centres like Tokyo and New York with their own large domestic economies along with a good regulatory and legal backup.

Model 2:
Offshore financial centres such as Mauritius which do not have a robust domestic economy but have international access and acceptance.

Model 3:
A hybrid model like Singapore which can boast of both domestic and international business.

India has Opted to go for the Third Hybrid Model.

India International Bullion Exchange (IIBX):

Bullion refers to Physical Gold and Silver of High Purity that is often kept in the form of Bars, Ingots, or Coins. Bullion can sometimes be considered Legal Tender and is often held as Reserves by Central Banks or held by Institutional Investors. The Government had Notified in August, 2020 about the Bullion Spot Delivery Contract and Bullion Depository Receipt (BDR) with underlying Bullion as Financial Product and related services as Financial Services.

A Bullion Exchange is a market through which Buyers and Sellers Trade Gold and Silver as well as Associated Derivatives. There are various Bullion Markets around the World with the London Bullion Market known as the Primary Global Market Trading Platform for Gold and Silver.

India International Bullion Exchange (IIBX), India's First International Bullion Exchange in GIFT-IFSC the NSE IFSC-SGX Connect.

It is a framework between NSE's Subsidiary in the GIFT International Financial Services Centre (IFSC) and Singapore Exchange Limited (SGX). Under Connect, all Orders on NIFTY Derivatives placed by Members of Singapore Exchange will be routed to and matched on the NSE-IFSC Order Matching and Trading Platform. Broker-Dealers from India and across International Jurisdictions are expected to participate in large numbers for Trading Derivatives through Connect. It will deepen Liquidity in Derivative markets at GIFT-IFSC, bringing in more International Participants and Creating a Positive Impact on the Financial Ecosystem in the GIFT-IFSC.

India International Bullion Exchange (IIBX) was first announced in the Union Budget 2020 for easing the Gold Import by Jewellers in India. It is a platform that not only enrols jewellers to trade on the exchange, but has also set up necessary infrastructure to Store Physical Gold and Silver. IIBX will facilitate efficient price discovery with the assurance of responsible sourcing and quality, apart from giving impetus to the financialization of gold in India. IFSCA is entrusted with notifying the

eligible qualified Jewellers in India for directly importing Gold through IIBX.

It will empower India to gain its rightful place in the Global Bullion Market and serve the Global Value Chain with Integrity and Quality. IIBX also re-enforces the commitment of the Government of India towards enabling India to be able to influence Global Bullion Prices as a Principal Consumer.

To Conclude, the Indian Government introduced the Gujarat International Finance Tec-City (GIFT City) project in India to develop a business-friendly environment similar to the currently preferred locations for financial centres including Singapore, New York, London, Hong Kong, Tokyo, Dubai, Malaysia, Kazakhstan, etc. GIFT City is proposed to be a first of its kind world-class smart city that becomes a global financial hub with the development of an International Financial Services Centre (IFSC). It aims to cater domestic and international, financial services and IT / ITES sectors, in India. It is being developed as a global financial and IT Services hub, designed to be at par or above with globally benchmarked financial centres. The project aims to facilitates Multi Services Special Economic Zone (SEZ) with an IFSC status, Domestic Finance Centre and the associated social infrastructure. It is being developed at Gandhinagar with the prime focus being the development of IFSC and allied activities in SEZ. GIFT City consists of two zones, i.e., Domestic Tariff Area (DTA) and Multiservice Special Economic Zone. All the domestic (i.e., rupee-denominated) transactions can be undertaken from DTA in GIFT City.

WEBINARS AND EVENTS ORGANIZED BY THE BFSIB

DRONES FINANCE (UNDER CORPORATE MSME AND AGRICULTURE SEGMENTS BY COMMERCIAL BANKS)

The webinar on Drones Finance Under Corporate MSME and Agriculture Segments by Commercial Banks was organized by the Banking, Financial Services and Insurance Board of the Institute of Cost Accountants of India on 14.12. 2023.

The webinar was graced by CMA Dr P. Siva Rama Prasad, former AGM, State Bank of India as the chief guest speaker and CMA Chittaranjan Chattopadhyay, Chairman, BFSIB.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB welcomed the guests and expressed his excitement for the webinar and thanked the speaker for enlighting the members. He thanked the BFSI Board for their knowledge dissemination and sensitizing members on this pertinent topic.

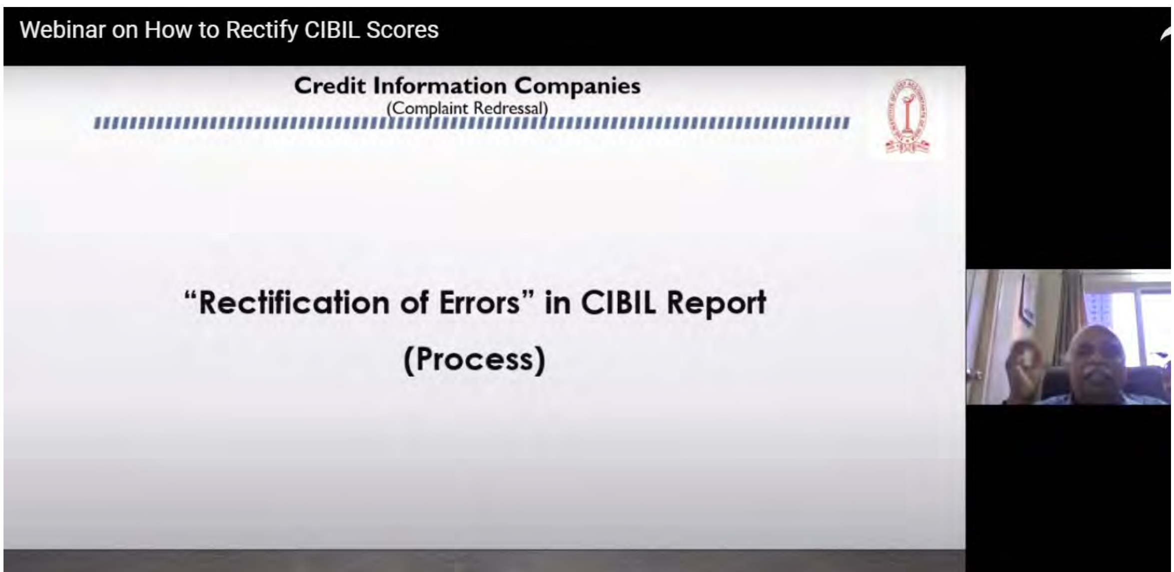
At the outset Dr. Prasad explained the benefits of technology in any industry which includes – reduction of operational costs, reduction in wastages, increase in productivity, increase in profit, absorbs volumes of transactions, much convenient to the users and available 24x7. Such a technology is drone. Regarding this he said that the Union Government provided 15000 progressive women self-help groups with drones to be rented out to farmers for agricultural purposes. The drone services are envisaged to be used by the farmers for Nano fertilizers and pesticide applications. Until recently there was a conception that drones were meant for armed forces and fighting enemies. Now a day's medicines, vaccines are supplied to various parts of countries by drones and even it is used in sprinkling pesticides and fertilizers on crops. However, the Kisan Drone Suvidha has added a chapter in the farming sector and it will prove to be a milestone for drone technology. Experts in the agricultural sector enlightened about the benefits of drones and how they will increase farmers' income. Adequate and timely spraying of pesticides and fertilizers by the drones may help in increase in production. The eminent speaker said that in farming apart from cost of seeds the next costly factor is labour cost or wages. Except few rich states like Punjab and Haryana, farmers do not get enough labour during farming. In such a situation technology has stood in favour of farmers. But the use of technology in farming is a bit expensive initially and may require more knowledge in operating which requires training. But in the long run, benefits like increase in productivity and economies of large scale may be seen. Hence the Government is promoting/ focussing the usage of drones to reduce the agricultural cost of farmers and inculcate the farm mechanization in agricultural sector and also for using in water management techniques. Under the SVAMITVA scheme land records are being documented through drone technology. Drone manufacturer Garud Aerospace has set a goal of developing 1 lakh drones which will be used for diverse purposes. Dr Prasad explained the technology of drone and mentioned that drones have high field capacity and efficiency, less turnaround time, less wastage and high degree of

atomization as its features. Drones can be used in crop cutting planning, direct yield estimation at Gram Panchayat level and for risk mapping of districts and for dispute/area discrepancy resolution etc. he further mentioned that the global agriculture drone market revenue is expected to grow by CAGR 21.3% from 2018 to 2026. Drones can fly above 50 to 100m and above 50 m a special authorization is required. No pilot license is required for non-commercial use. A standard drone with 12 litres capacity costs nearly Rs.3.45 lakhs, however higher technology drones start at Rs. 15 lakhs. While talking about Kisan drone, he said that a Kisan drone is an unmanned tank filled with insecticides and nutrients which can spray to one acre of land in just 15 minutes. It will save time and effort and spraying will be done evenly. Drones will be used to bring vegetables, fruits, fish etc. from farms to the markets directly with minimal damage and less time resulting in more profits to farmers and fishermen. The eminent speaker discussed in details the top 10 drone manufacturing companies in India in 2023. To promote kisan drones' guidelines have been issued by Sub Mission of Agricultural Mechanism (SMAM).

Financial assistance @ 100% of the cost of drone up to a ceiling of Rs.10 lakhs/drone is provided for purchase and for demonstration by institutions like ICAR, LVKs, SAUs and state and other central Govt agricultural institutions. The GOI has released funds to various state governments for supply of more than 240 kisan drones to farmers on subsidy and establishment of more than 1500 kisan drone CHCs to provide drone services to the farmers. He discussed about the introduction of Union Kisan Pushpak scheme for custom hiring activity and for agricultural purposes. Eligibility of loan applicants along with tenure of loan and loan amount were also explained. The drone should be comprehensively insured by the borrower with bank clause for its full cost. Under the MSME segment the commercial banks are financing to drone sub dealer outlets, drone hiring shops, drone spare parts dealers, drone servicing centres and drone custom hiring centres in villages. And under the agriculture segment the commercial banks are financing to agriculturists, self-help groups, joint liability groups, farmer producer organizations and Krishi Vigyan Kendras.

After a successful and thought provoking question answer session, the webinar was wrapped up by vote of thanks by CMA(Dr.) Aditi Dasgupta, Jt. Director, BFSIB.

HOW TO RECTIFY CIBIL SCORE



The webinar on the theme How to Rectify CIBIL Score was organized by the Banking, Financial Services and Insurance Board of the Institute of Cost Accountants of India on 21.12.2023. the webinar was graced by CMA Dr. P. Siva Rama Prasad, ex AGM, SBI.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, welcomed the guest speaker and expressed his thrill for such an informative webinar. He wished every success to this thought provoking session.

The Credit Information Companies (CICs) collect financial information about all individual and forms a credit report based on their financial history. The credit rating report plays a very important role as it gives an idea to the banks about the credit worthiness of the loan applicant. It reveals the information about the credit discipline. The credit rating system is controlling the NPAs of the FIs/Banks. If errors are not rectified loan applicants would be unable to avail the loan facilities from banks. There are 4 CICs in India namely – 1. Central Information Bureau Limited (CIBIL) 2. Equifax 3. Experian and 4. High Mark Credit Information Services. The CIBIL is the first CIC in India and was formed in 2000. It boasts over 900 strong member base including banks and financial institutions. CIBIL collects commercial and consumer financial data and forms a credit report and also issues a score derived from this report known as CIBIL score. Any individual and purchase a copy of their CIBIL report. The eminent speaker then introduced the other 3 CICs. He said that a CIBIL score is considered good if it lies between 700 and 900, and a higher CIBIL score signifies higher credit worthiness. A CIBIL report has 6 section of which the 1st section contains the personal information like name, DOB, PAN and AADHAR no's which are reported to the bureau by the banks. The contact information section contains mobile number, residential address and email id. The employment section contains information like type of occupation and annual or monthly salary. The most important section of a CIBIL report is the account information section which contains credit information like loans and credit cards taken, loan default, late payments, amount overdue, current balance etc. the enquiry information section records all the enquiries made by the lenders and also the date and purpose of the enquiry. The eminent speaker advised to avoid making multiple enquiries in a short span as it may trigger hard enquiry from lenders making appear credit hungry.

While discussing about the factors considered for credit score by CICs, he said that a cibil score is made up of 4 factor and each factor and each factor has a different weightage. Payment history 30%, credit exposure and type 25% each and other factors 20%. He further said that in order to maintain a high score one must be prompt with EMIs and credit card payments. Irregular payment pattern hampers the score. A recent cibil score analysis revealed that 30 days' delinquency can reduce the score by 100 points. Having a loan or multiple credit card does not necessarily impact cibil score, however if credit utilization ration is high it will bring down the score. Ideally one should spend up to 30% of the credit limit. Individuals with higher credit utilization ratio are likely to turn into a defaulter and hence the eminent speaker advised to keep a tab on the expense and make sure not maxing out the limit. Having a good balance to secured and unsecured loans help to boost the score. A good credit history from an early age is advised to make

vail loans easier and also advised to spread credit applications throughout the year instead of making them all at once. Delays, defaults and write off impact more negatively than unsecured loans. A credit hungry behaviour negatively impacts the score. He further said that due to mistake it is sometimes seen that errors crop up in the score, the banks need to rectify the errors in the cibil report. The RBI direct the CICs to implement the compensation framework for delayed updating or rectification of credit information by them. The complainant shall be entitled for a compensation of Rs.100 /day in case the complaint is not resolved within 30 days. He also explained the process of raising a dispute and redress a dispute.

After a thought provoking question and answer session and vote of thanks by CMA Dibbendu Roy, Addl. Director, HoD and Secretary BFSIB, the webinar was concluded.

PRACTICAL ASPECTS OF SURVEILLANCE, MANAGEMENT CONTROL AND AUDIT EXPECTATIONS FOR EARLY DETECTION AND PREVENTION OF ALL SIZE FRAUD IN BANKS & WAY FORWARD FOR CMAS TO BECOME INSOLVENCY PROFESSIONAL

The Banking, Financial Services and Insurance Board of the Institute of Cost Accountant of India organized a blended seminar On Practical Aspects of Surveillance Management Control and Audit Expectations for Early Detection and Prevention of All Size Fraud in Banks and Way Forward for CMAs to Become Insolvency Professional at the headquarters Kolkata on 22.12.2023. The program was streamed live on the official YouTube channel of The Institute to reach its students members and other stakeholders across India and overseas.

The event was graced by CMA Harijibon Banerjee Past President, ICMAI, CMA Amal Kumar Das, Past President ICMAI, CMA Mahesh Shah, Past President, ICMAI, CMA Avijit Dutta, Chairman, PD, EIRC and CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, ICMAI.

Shri Subrata Mukherjee, former additional CVO State Bank of India and CMA J K Budhiraja, CEO ICMAI MARF were present as the guest speakers for technical sessions.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, ICMAI welcomed the guests and thanked the President and Vice President of ICMAI and BFSIB members for their continuous support and encouragement for holding such programs.

CMA Harijibon Banerjee Past President, ICMAI, CMA Amal Kumar Das, Past President ICMAI, CMA Mahesh Shah, Past President, ICMAI and CMA Avijit Dutta, Chairman, PD, EIRC also addressed the august presence.

The technical session started with the presentation by Shri Subrata Mukherjee, former additional CVO State Bank of India. At the outset he said that the Indian banking sector has witnessed increased reporting of frauds over the last many years while advances account for a larger share in the total with an expanding Business and Technology adoption and digital channels and products collaboration. Banks and customers have been frequently falling preys of the fraud schemes engineered by clever fraudsters besides sophisticated riches in IT system landing the banks losing money. It is a mirage to the National Assets also fraud in the financial and other many important sectors of the economy are worldwide phenomena and Regulatory authorities are concerned and continuously creating awareness among the public and adopting upgrading checks and detection measure to limit the Quantum of incidences through early detection reporting investigation accountability fixation law enforcement and sealing to Max extent. Many

organizations in private and public sectors and universities of national and international stature have come up with fraud detection techniques developing trained fraud examiners with the application of AI based technology for detection and law in enforcement. The eminent speaker said that there should be a detection, reporting, investigation and prosecution system for fraud and more than that there should be a prevention system. In banks majorly there are deposit related, advance related and service related frauds. The routes or the ways in which frauds takes place in banks and the classification of such frauds were discussed. While taking about the types of banking fraud he pointed on use of financial statements and non-fund based frauds which includes insufficient security, insufficient appraisals, duplicate bank guarantee etc. and also investment fraud, securitization fraud, foreign exchange frauds and cyber and digital frauds. The fraud types were also discussed based on the provisions of Indian Penal Code. He stressed that a robust appraisal and an effective credit monitoring mechanism during the entire life cycle of the loan account can check the fraud to the greater way. The RBI has directed for providing a framework to banks for early detection and prevention of frauds, reporting to investigating agencies and for performing effective fraud risk management. A Central Fraud Registry has been created for the monitoring returns where the main objective is timely identification control reporting and mitigation of fraud risk. Banks are also advised to put in place proper system and procedure to ensure that information available in CFR is made use as a part of credit risk governance and fraud risk management. Reserve Bank of India has come up with the loan frauds and new framework where again prevention and early detection and prompt reporting to the RBI has been added. The eminent speaker discussed about auditor's role in fraud and also gave real life examples of frauds and detection.

CMA J K Budhiraja, CEO ICMAI MARF, at the outset explained the difference between, insolvency, bankruptcy, liquidation and winding up. He discussed about the pre- IBC 2016 position of insolvency and the shift to IBC 2016 through NCLT for corporates and for the non-corporates through the DRAT. The insolvency code focused on the maximization of the values for the stakeholders with the objective of having a resolution plan or restructuring plan in time bound manner. The structure of the IBC 2016 was explained. He briefed the list of laws that has been amended and IBC have an overriding effect on all the laws relating to insolvency and bankruptcy. Multiplicity of laws, excessive resolution time were the reason for bringing the IBC with the objective to maximise the value to stakeholders in a time bound manner. The time line regarding this, covid-19 impact and the jurisdiction of the IBC 2016 was discussed along with an in-depth analysis of the amendments in the code. The eminent speaker explained the corporate insolvency procedure (CIRP) under the code. While talking about taking up insolvency as profession, he explained the eligibility criteria for becoming an insolvency professional and criteria for registration with IBBI and also the question pattern during examination and other related issues including the syllabus coverage for such examinations.

The technical session was concluded after an interaction question answer session.

The seminar was concluded after the felicitation of the guest speakers and vote of thanks by CMA (Dr.) Kaushik Banerjee, Secretary, ICMAI.

AI - THE MOST DISRUPTIVE TECHNOLOGY OF THE CENTURY AND ITS IMPACT ON FINANCE AND BUSINESS

The Banking Financial Services and Insurance Board of ICMAI has organized a webinar on AI The Most Disruptive Technology of the Century and Its Impact On Finance and Business as a part of its knowledge dissemination to its members on 30th December 2023.

The webinar was graced by CMA Tamil Selvan Ramadoss, group finance and business transformation officer R&B Holdings Dubai UAE and Chairman Professional Development ICMAI, Dubai Overseas Centre as the chief guest speaker and CMA Chittaranjan Chattopadhyay, Chairman, BFSIB.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB welcomed the guests and expressed his excitement for the webinar and thanked the speaker for enlighting the members. He thanked the BFS Board for their knowledge dissemination and sensitizing members on this pertinent topic.

CMA Tamil Ramadoss started his presentation through PPT mentioning the industrial revolution and its stages. The first ever implementation of the Revolution that has happened in the last 200 years has started with the Steam and water power. the invention of electricity has transformed also the Industrial Revolution and 1950s the introduction of the electronics came into the market has propelled along with electricity and electronics it took to a different level. But lately last 2010 onwards robotic systems or the automated systems automated factories smart factories Internet of Things, artificial intelligence, Big Data analytics are the buzz words that has come with the Industrial Revolution 4. Industrial Revolution 5 which is yet to come that is called the humanoids which is nothing but more than robotic systems where there will be a system of robots who will be exactly resembling that of a humankind they will even have the touch and feel feelings they will have the emotional intelligence not just the intelligence of doing some work they will replace humans they will be similar to humans in many aspects. And we humans have to embrace it. The speaker shared a statistic that the AI Market size is projected from USD 241 roughly $242 billion dollar in 2023 to almost 740 billion in 2030 in another 7 years which will see a compounded annual growth of 17.3 percentage which is almost more than three times than the current market size. The Ministry of Electronics and Information Technology has set up seven experts group to collectively brainstorm on the vision objectives and outcomes of designing the India's AI pillar. The Indian AI Market size reached $680 million in 2022 and is expected to reach 3,900 million which is roughly around 34 billion dollars by 2028 i.e. 33% compounded annual growth. India’s AI market is expected to add 967 billion dollars to the Indian economy by 2035 in another 9 years and around 450 to 500 billion dollar in next two years. AI is rapidly changing how transactions and social interactions are organized in society today. AI systems and algorithms supporting their operations play increasingly important role ranging from Clinical decision support systems, the predictability of likelihood

of the criminal activities in the society filtering the algorithm that categorize and provide personalized content for users. He explained the functions of AI, IoT, Big Data in 5 levels namely – smart connection level, data to information conversion level, cyber level, cognition level and configuration level. AI is being embraced by all the industries in varying percentage. The 5 new job roles which are going to grow are – AI Model and Prompt Engineers, Interface and Interaction Designers, AI Content Creators, Data Curators and Trainers and Ethics and Governance Specialist.

AI will help accountants by providing better and cheaper data to support decision making, generating new insights from analysis of data and freeing up time to focus on more tasks like decision making, problem solving, advising, strategy formulation, relationship building and leadership. While discussing about the role of AI in accounting and analysis the eminent speaker said that robots are the next generation accountants who can perform from tax planning to budgetary control to integrated reporting etc. AI in finance transforms the way people interact with money. It helps the finance industry streamline and optimize processes ranging from credit decisions to quantitative trading and financial risk management. Banks are using AI to detect frauds, manage credit risks and improve customer service. Insurance companies are using AI to assess risk and price policies more accurately. Investment managers are using AI to create personalised investment portfolios and make informed decisions based on data analysis. AI plays descriptive, diagnostic, predictive and prescriptive role in decision support system. It is not just about having a new cutting edge technology he said. It is about reshaping the very foundation of modern finance. Quantum algorithms could bring about a new era of financial security. The advantages of having AI in accounting and finance is that it will improve efficiency, increase accuracy, enhance data analysis and decision making and improve risk management and fraud detection. The AI needs to be regulated to ensure ethical use of AI, safeguarding human rights and safety and mitigating social and economic impact. The problem is how to regulate it. The regulatory bodies across the globe are still struggling how to regulate it because the reason is the gap between the technology transformation which is highly disruptive and the legal systems to cope up to that is very big and the legal systems are still struggling to cope up to control the generative AIs or other AI system.

After a successful and thought provoking question answer session, the webinar was wrapped up by vote of thanks by CMA(Dr.) Aditi Dasgupta, Jt. Director, BFSIB.

AWARENESS PROGRAMME FOR INVESTMENT MANAGEMENT COURSE

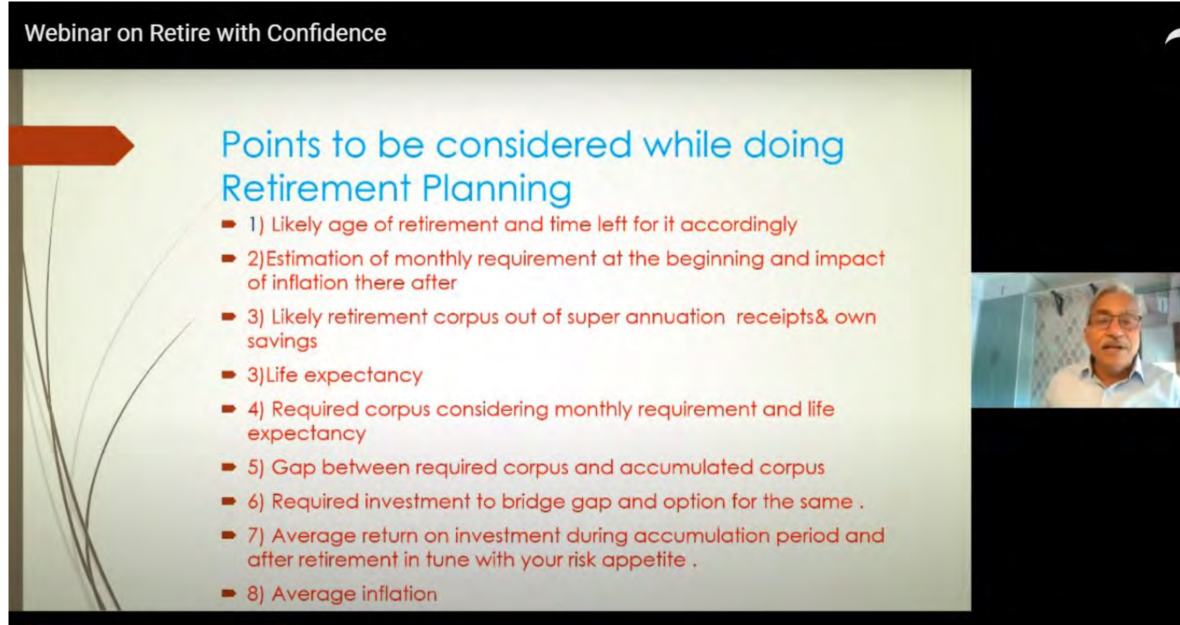
The Banking Financial Services and Insurance Board of the Institute of Cost Accountant of India is organized a webinar on the theme The Awareness Program for Investment Management Course which will be conducted in association with NSE Academy. The objective of the investment management course is to apprise the participants the Practical aspects of trading in the capital markets. The webinar was graced by eminent speaker, Sri Abhishek Dubey, industry expert NSE academy.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB said that this course will be helpful in investment decision making process and strategies for investment and this course is done in trading platform of NSE academy SMart lab which is an exclusive platform and the courses are conducted in a WebEx platform where recordings will be provided so it would be a very much a helpful tool for all the participants who wants to develop their skills in capital markets. He wished the webinar every success and welcomed all.

While talking about the course outline Shri Dubey started with Fundamental Analysis and Valuations which involves brushing the basics, Understanding financial statements and Valuation Methodologies. The second level consists of Mutual Fund and Market Analysis with Technical which would include understanding on Investment Landscape in India, Concept and Role of Mutual Funds, Legal Structure, Mutual Fund Offer Documents, Channel Management Practices, Valuation and Taxation, Investor Services and Mutual Fund Scheme Selection. The 2nd part of this level includes Introduction to Technical Analysis involving Candle Chart, Pattern Study, Trading Strategies, Trading Psychology and Risk Management. The third level consists of The Financial Derivatives and Its Applications which would include – Basics of Derivatives, Understanding Index, Introduction to Forward Future and Options, Option Trading Strategies and Systems, Clearing and Settlement, Legal and Regulatory Framework, Taxation and Sales Practices and Investor Protection Services. After giving an outline of the course the eminent speaker with hands one examples explained to explain how to understand the topics and have objective evaluation of companies. He said that this course would help in interpreting the financial statements and would help in investment decisions. It would also help in evaluating the mutual fund market and would give a deeper perspective of the derivative market. He also mentioned the duration of the course and course fees and the candidates would be given the choice to select the levels.

The webinar was concluded after a question and answer session and vote of thanks by CMA Dibbendu Roy, Addl. Director, HoD and Secretary, BFSIB.

RETIRE WITH CONFIDENCE



The Banking Financial Services and Insurance Board of The Institute of Cost Accountants of India announced January 2024 as the Retirement Solutions month and on 12.01.2024, the first webinar on the topic 'Retire With Confidence' was organized. The event was graced by Sri Sudhakar Kulkarni, a certified financial planner as the guest speaker.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB thanked the guest speaker and welcomed everybody for gracing the webinar. He wished a successful and thought provoking session.

Sri Sudhakar Kulkarni, presented a PP and said that retirement is the period of life when an individual is no longer working and his regular income ceases. Retirement can be a cause of worry if it is unplanned or involuntary and if salary is the only source of income. Retirement planning is essential at early age to take care of, inflation, increased life expectancy, increased medical and other expenses etc. the factors which are to be considered while planning for retirement are – likely age of retirement and time left for it accordingly, estimation of monthly requirement and impact of inflation, likely retirement corpus, life expectancy, required corpus considering expenses and life expectancy, gap between required and accumulated corpus, required investment to bridge the gap, average return on investment during accumulation period and after retirement in tune with risk appetite and average inflation. The eminent speaker pointed out NPS, Insurance Annuity Plans, PPF/NSCs/RBI Bonds and Shares and Mutual Funds as pre-retirement investment options and MIS from Bank and Post office deposits, Debt/hybrid MFs and SWP of MF as post retirement investment options. The other aspects of retiring with confidence are nomination, will, trust or gift under Estate Planning, floater and top up policy under health insurance and net banking, debit or credit cards, UPI etc. under digital literacy. The eminent speaker explained the benefits of planning early with real life examples. He highlighted the features of NPS which he considered as the most import investment tool. National pension scheme is a social security initiative by central government the pension program is open to employees from public private and even organized unorganized sector It encourages people to invest in pension account at regular interval during the course of their employment and after retirement the subscriber can take out certain percentage of the corpus and as an NPS account holder the subscriber will receive the remaining amount as monthly pension. Earlier NPS scheme was covered only for the Central government employees however now PFRDA has made it open for all Indian citizen on voluntary basis. He further mentioned that NPS is good scheme for anyone who wants to plan their retirement early.

After a thought provoking question and answer session and vote of thanks by CMA Dibbendu Roy, Addl. Director, HoD and Secretary BFSIB, the webinar was concluded.

RETIREMENT AND EVENTUAL REALITY

The Banking Financial Services and Insurance Board of The Institute Of Cost Accountant Of India observed January 2024 as the Retirement Solutions month and on 17.01.2024 organized in association with PFRDA the second webinar on the topic Retirement and Eventual Reality.

The webinar was graced by Dr. Deepak Mohanty, Chairman, PFRDA as the chief guest of honor, CMA Soumit Das, chief mentor, Financial Goal Achievers and Shri Pankaj Mathpal, MD & CEO, Optima Money Managers Pvt. Ltd., guest of honor and speaker, Mr. Sumit Kumar, CGM, PFRDA, CMA Ashwin.G.Dalwadi, President, ICMAI, CMA B.B.Nayek, V.P. ICMAI and CMA Chittaranjan Chattopadhyay, Chairman, BFSIB.

CMA Dibbendu Roy, Addl. Director, HoD and Secretary, BFSIB thanked the dignitaries for their august presence.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB welcomed the guests and expressed his gratitude for the august presence and wished every success for the webinar.

CMA BB Nayek, V.P. ICMAI, thanked the guests and wished for an effective and enlightening session on retirement solutions.

CMA Ashwin G. Dalwadi, President of ICMAI, congratulated ICMAI for organizing the programs and also BFSIB for organizing webinars seminars courses and representation letters to and other activities to government and other authorities for the growth of profession. He said that retirement is an eventual eventuality and when a person reaches the age of senior citizen he will need Diversified Financial Planning. NPS is a wonderful product of PFRDA which enables the flow of income through annuities.

Dr. Deepak Mohanty, Chairman, PFRDA at the outset thanked ICMAI for arranging a webinar on such a pertinent topic. He said that one should understand the power of compounding and hence there is a merit in starting early in life. Coming to the reality of our demography among various Factor One Dynamic factor is we are the most populous country on the face of this planet and we are the youngest country so the youngest share of working population is very high apart from other things is adding dynamism to the economy and there's so much optimism around as we aspire to become a high income country by the middle of the century. 1/5 of our population by 2050 would be over 65 years which will add a lot of burden on the whole system and the preparation for that has to begin now. Post retirement to combat the increasing expenditures one should have a stream of income which is pension or annuity. Previously only Govt employees had pension but now with NPS which actually started for the government employees post 2004 and since 2009 is made available to everybody. a common person can also access NPS and that is how the pension has been socialized in this whole process and one should take advantage of that. He mentioned various advantages of NPS and how both the

organised and unorganised sector employees can invest their funds in equity, debt and Govt securities to earn a fixed income post retirement.

Mr. Soumit Das, financial planner presented a PPT on the theme. He placed the concept of 28k circle of life where the general life of an average person is divided in 4 quadrants and in those quadrants the main activities were divided. The Final Phase which is 60 to 80 which is the retirement phase or the fourth phase and there is no income so at the span of 28,000 days we actually earn only 14,000 days and balance 14,000 days we don't earn and out of this the most critical is the last 7,000 days which is 60 to 80 years and we need to make adequate provision for ourselves to build up a healthy retirement Corpus so that will last for 7,000 days and for this time we need investment decision for a retirement planning and what is most critical is the time and how early we start retirement planning is based on the three pillars of financial planning - provision for emergency funds provision for lifelong earnings and provision to beat inflation. The eminent speaker said retirement planning is the process of building a healthy retirement Corpus of Diversified asset classes for the investor that can generate free cash flows for whole life of the investors required to lead a comfortable retired life at their own terms again a life of dignity and self-respect while we play our second Innings. Increase in life expectancy, dependency ratio, no proper social security, decline in joint family structure and inflationary pressures are the reason for retirement planning. The risk of living long is that the monthly expenses post retirement could be 4 times the current cost of living and that is why we should plan the retirement early. A retired person should have an emergency fund to meet contingency and should have a healthy retirement corpus to have a steady flow of income post retirement. The retirement planning life cycle consists of 3 phases –

- Wealth accumulation (during early years)
- Wealth distribution (during retirement years)
- Estate transfer (upon death)

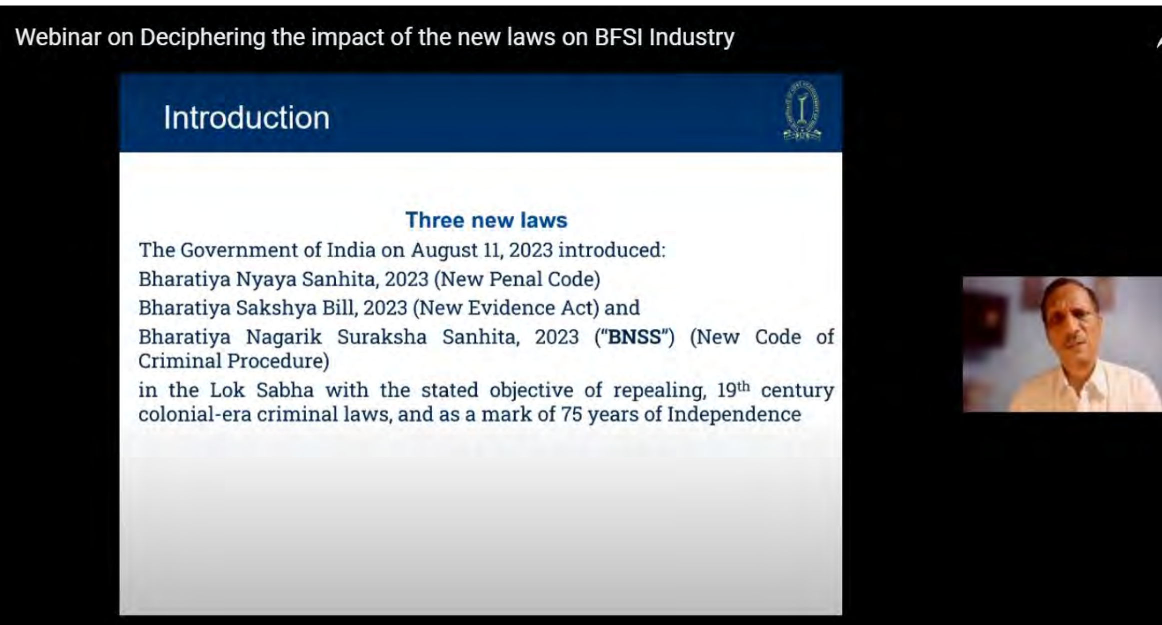
According to a survey on 10 tax saving options on eight parameters- returns safety, flexibility, liquidity, costs, transparency, ease of investing, taxability of income, the NPS has been voted the top tax saving scheme for the second year in a row The National Pension System was introduced by the Government of India for central government employees joining services with effect from 1 January 2004. 5 years later on 1st May 2009 on voluntary basis NPS was made available for all citizens of India PFRDA was created as regulator for the pension sector. NPS is based on personal retirement accounts created for individual members NPS accurate savings into the subscriber’s PR while he or she is working and use the accumulations at retirement to procure a pension for the rest of their lives. He explained the NPS ecosystem and its features and benefits, types of accounts, tax benefits, investment choices and exit options.

Shri Pankaj Mathpal, MD & CEO, Optima Money Managers Pvt. Ltd., explained through a PPT presentation that one must plan for retirement at early stage of life as due to the power of compounding the post retirement corpus would fetch a satisfactory amount taking the risk adjusted return into consideration. He said that the retirement planning involves 2 distinct phases – 1. Accumulation 2. Distribution. In the accumulation phase people build the retirement assets and in the distribution phase people use the retirement assets. One should invest in different classes and different products along with NPS for getting a steady flow during the distribution phase. Investment in FDs, short term schemes can be made to meetup the short term goals but for long term with 20 or more years in the investment horizon more focus should be on equity with Mutual funds, NPS, ULIP. etc.

Mr. Sumit Kumar, CGM, PFRDA, said that PFRDA is doing lot of seminars and meeting with corporates to bring NPS to the masses and with this event he urged all the CMAs present to introduce it to their corporates and colleagues. Making investment into the PFs is not enough and NPS would bridge that gap to bring in additional corpus.

After a thought provoking question answer session, the webinar was concluded.

DECIPHERING THE IMPACT OF THE THREE NEW LAWS ON BFSI INDUSTRY



The Banking Financial Services and Insurance Board of the Institute of Cost Accountants of India organized the webinar on 'Deciphering The Impact of The Three New Laws on BFSI Industry'. CMA Guruprasad V, consultant, was the guest speaker for the pertinent topic.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB welcomed the guests and expressed his excitement for the webinar.

At the outset the eminent speaker presented on PPT the details of the 3 new laws that has been approved on 25th December'2023 and their impact on the BFSI industry. The new laws being –

1. Bharatiya Nyaya Sanhita 2023 (NEW PENAL CODE)
2. Bharatiya Nagarik Suraksha Sanhita, 2023 (BNSS) (New Code of Criminal Procedure)
3. Bharatiya Saksha Bill, 2023 (New Evidence Act).

The GOI on August 11, 2023 introduced the above 3 laws in the Lok Sabha with the stated objective of repealing 19th century colonial era of criminal laws as a mark of 75 years of Independence. The date to implement the new laws is yet to be implemented. It is estimated that it will take at least 9 to 12 months for all the three new laws to be implemented across the country and already a pilot project is on set to begin in Ahmedabad Gujarat in the next two months and it is believed that except some areas that have a connectivity problem because it is believed so at least 90% of the area in India will have the reach of the new laws, because it is going to be a extensively digital based approach as we are in a digital era and government wants to give a digital push to the implementation of the law of the land. The thrust is on the scientific way of investigating and also to promote forensic based investigation. The entire criminal justice process including the judiciary will soon be online. The eminent speaker mentioned that the BNS is an Act to consolidate and amend the provisions relating the offenses and matters connected there with or incidental there to. It has been given the assent by the President of India on 25th of December. While talking about the key new changes he said that the inclusion of digital and electronic data has made a significant change in the definition of record. And hence computerisation and digitisation by the BFSI industry is a core activity. Gender neutral has been considered while drafting the BNS to ensure inclusivity and also there is a new definition of 'economic activity'. Organised crime and economic offence and also punishment for those involved in organised crime, expansion of the definition o 'theft', and broadening the definition of section 498A, 498B, 498D, 498E of the IPC by including counterfeiting of coins and Govt. stamps, prohibition of fictitious stamps, has been included in the BNS.

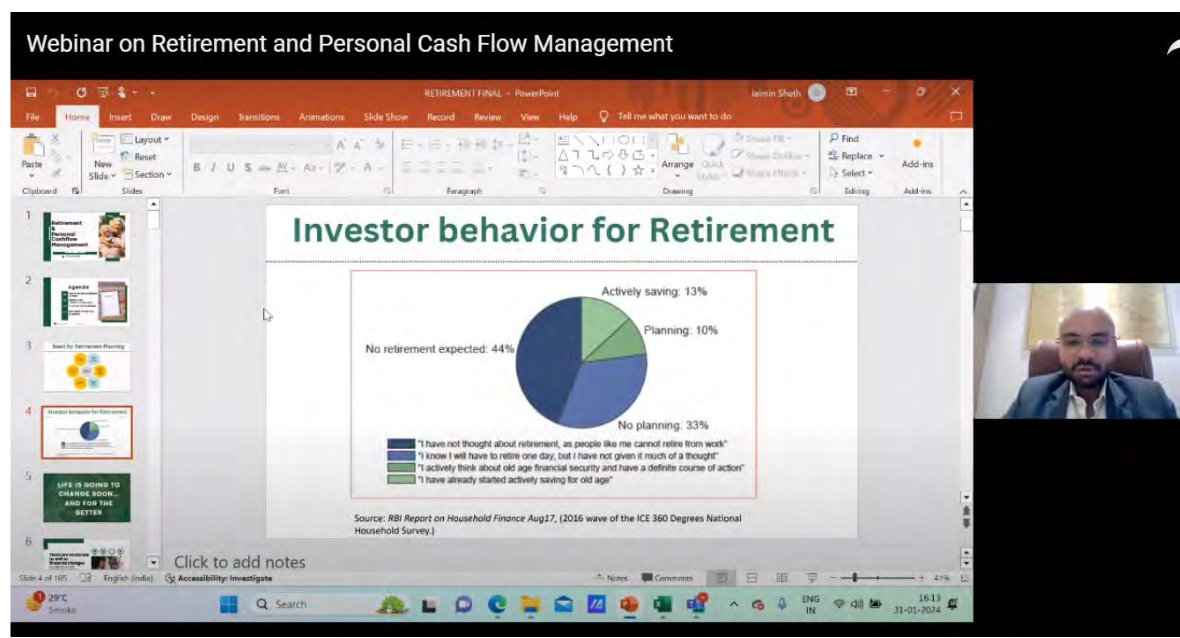
The eminent speaker said that the BNSS is an act to consolidate and amend the law relating to criminal

procedure and has been given the assent by the President of India on 25th December, 2023. This includes the meaning electronic communication in details. The BNSS has also made changes regarding to Registration of FIRs and zero FIRs, and Proclaimed defaulters. By talking about the impact of this on BFSI he said that the addition of section 356 would ensure the detailed enquiry and trial in the absence of the person declared as proclaimed defaulters offended for committing loan default who escape justice by fleeing abroad. The most important insertion of BNSS is the use of electronic mode in stages of investigation, inquiry and trial and production of device containing digital evidence and time bound justice delivery system.

While discussing about the 3rd law i.e. the BSA, he said that it is an Act to consolidate and provide for general rules and principles of evidence for fair trial and has been given assent by the President of India on 25th December, 2023. The BSA pays special attention to electronic evidence recognizing the expertise of examiners of electronic evidence as per section 79A of the IT Act. He further said that the BFSI sector being a critical sector of the Indian economy have to spend considerable effort, time and resource to reskill and upskill to be ahead competition by complying with the latest laws of India.

After a successful question answer session, the webinar was wrapped up by vote of thanks by CMA Dibbendu Roy, Additional Director, HoD and Secretary, BFSIB. He thanked the eminent speaker for such an insightful session. He also thanked CMA Ashwin Dalwadi, President, ICMAI and CMA B.B.Nayek, VP. ICMAI and BFSI Board members for guidance and BFSIB team members for their support and service.

RETIREMENT AND PERSONAL CASH FLOW MANAGEMENT



THE BFSIB OF ICMAI has celebrated January 2024 as the retirement solutions month and on 31.1.22024 a concluding webinar was conducted on the theme 'Retirement and Personal Cash Flow Management'. CMA Jaimin. S. Sheth research analyst, was the guest speaker for the pertinent topic.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB welcomed the guests and expressed his excitement for the webinar and thanked CMA Jaimin. S. Sheth for enlightening the members. He thanked the BFS Board for their knowledge dissemination and sensitizing members for retirement solutions.

CMA Sheth walked us through many agendas like why people need retirement solutions, what to do post retirement and investment options available post retirement through a PPT presentation. He pointed out increased life expectancy, decreased Govt. schemes, increased cost of living, higher medical cost, tendency to retire earlier and increased nuclear families have added up to the requirement of retirement solutions. The eminent speaker shared that despite this nearly 80% of the population do not plan for retirement. Factually, people generally get EPF, Gratuity and commuted pension during retirement and also have amount saved and invested all through the years with the goal that the regular expenses are well taken care of. The eminent speaker pointed out, sharp falling of interest rates and lifestyle inflation and new expense heads are the challenges which are faced post retirement. Previously post retirement people used to get Govt. backed pension schemes, family support due to joint family, low medical and lifestyle cost and low average age compared to now days with market oriented pension plan, disintegrated families, high medical, lifestyle expenses and high average age. He shared an age based guide as to the amount to be saved in relation to various age bars and stressed to consider inflation before planning for retirement. To analyse the current corpus one needs to check whether the current corpus is enough to meet all the requirement and on that basis one should select the retirement solutions plans accordingly. The eminent speaker pointed out an exhaustive list of conservative and aggressive investment options with comparative interest rates as part of post retirement investments keeping in mind age, inflation, investment appetite etc. He made an in-depth and detailed discussion on NPS and Mutual Funds and their benefits. Contingency can arise due to many non-predictable and non-controllable reasons and people need to have to create emergency fund as contingency planning which can also be invested for short term in no risk investments. The solution lies in creating a portfolio of right balance and mix which includes all asset class.

After a successful question answer session, the webinar was wrapped up by vote of thanks by CMA Dibbendu Roy, Additional Director, HoD and Secretary, BFSIB. He thanked the eminent speaker for such an insightful session. He also thanked CMA Ashwin Dalwadi, President, ICMAI and CMA B.B.Nayek, VP. ICMAI and BFSI Board members for guidance and BFSIB team members for their support and service.

IFRS -17 –AN INTRODUCTION

The Banking Financial Services and Insurance Board of ICMAI has organized a webinar on IFRS -17 –An Introduction as a mark of celebrating Insurance month and as a part of its knowledge dissemination to its members on 18.02.2024.

The webinar was graced by CA. Anjani Kumar Khaitan, renowned professional working on IFRS, Ind-AS as the chief guest speaker and CMA Chittaranjan Chattopadhyay, Chairman, BFSIB.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB welcomed the guests and expressed his excitement for the webinar and thanked the speaker for enlighting the members. He thanked the BFS Board for their knowledge dissemination and sensitizing members on this pertinent topic.

The IFRS 17 is the first comprehensive and truly international accounting standard for insurance contracts issued by an entity. It replaces IFRS 4 that resulted in widely divergent practices. Itt applies to all entities that issue insurance contracts and primarily expected to affect entities in insurance industry. It increases transparency in financial information and provides useful information about the profitability of insurance contracts. IFRS 17 requires consistent accounting for all insurance contracts based on current measurement model and requires use of current updated information about obligation, risks and performance of insurance contract. He said that lack of transparency, updated assumption and comparability in IFRS 4 gave birth to IFRS 17 and specifically mentioned that IFRS 17 is applicable to insurance contracts and not to insurance companies, i.e. if any company which issues a contract that meets the definition of insurance contracts, then they are equally covered within the ambit of IFRS17. It establishes a comprehensive accounting model for all insurance contracts and requires the entities to measure insurance contracts at current value using updated assumptions about cash flows, risks and obligations and report the estimated future payments. It is more prescriptive than IFRS 4 and seeks more useful and transparent information to provide better information bout profitability. The improvements which are intended to be brought by IFRS 17 is – consistency in accounting valuation in all insurance contracts, better comparability between companies in the industry and increased transparency on profitability drivers. While talking about the objectives of IFRS 17 he said that it is to establish the principles for recognition, measurement, disclosure and presentation. The implementation journey of IFRS 17 was also discussed in details. Product warranties and residual value guarantees provided by manufacturers, retailers, employers asset and liabilities from employee benefit plan, contingent considerations payable or receivable in a business combination and insurance contracts held in which the entity is the policy holder and scoped out of IFRS 17. The eminent speaker gave an overview of the measurement models of IFRS17 and explained the Building Block Approach, Premium Allocation Approach and Variable Fee Approach in details. Of the 3 potential transition approaches, the fully retrospective approach must be applied, if impracticable then then modified retrospective approach to be applied and fair value approach to be applied if insufficient information is available.

After a successful and thought provoking question answer session, the webinar was wrapped up by vote of thanks by CMA(Dr.) Aditi Dasgupta, Jt. Director, BFSIB.

DRIVING EFFICIENCY AND GROWTH - HARNESSING THE EXPERTISE OF CMAS IN THE INSURANCE INDUSTRY

BFSIB of ICMAI organised a hybrid seminar in mode on the theme "Driving Efficiency and Growth- Harnessing The Expertise of CMAs in The Insurance Industry" for observance of Insurance month in the month of February, 2024. The event was streamed live in the Institute's YouTube channel.

CMA Dibbendu Roy, Addl. Director, HOD BFSIB introduced the august presenc of the guests comprising of Smt. M. Rajeshwari Singh, CMD National Insurance Company Limited, Chief Guest. CMA Dr. Tarun Agarwal, Director National Insurance Academy Pune, Guest of Honour and CMA G. Srinivasan, the Former Chairman and Managing Director of The New India Assurance Company Limited, Guest of honour. CMA Shiba Prasad Padhi, Cost Accountant and SLA and CMA Dr. Ashok Kumar Jain, Promoter & Director, Blue Umbrella Risk Management and Brokers Pvt. Ltd.and member of the BFSI Board, ICMAI were present as the Guest Speakers for the technical session. The seminar was also graced by CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and CMA Dr. Ashish P. Thatte, Chairman, Career Counselling and Placement Committee, International Affairs and Sustainability Standards Board.

CMA Dr. Ashish P. Thatte at the outset mentioned that though the insurance sector having the highest potential of growth in our country but there are more scope in this field and it is reason for that ICMAI is taking a lot of initiatives to not only creating awareness but also to exhibit the efficiency of the CMAs in the insurance sector. He wished great success to the event and congratulated BFSIB under the leadership of CMA Chittaranjan Chattopadhyay for their activities in the BFSI sector.

CMA Chittaranjan Chattopadhyay welcomed all the guests and speakers and expressed his deep gratitude towards CMA Ashwin G. Dalwadi, President, ICMAI for his continuous support for holding such events. He mentioned about the protection gap in the insurance sector and the huge potential and also said that ICMAI would like to constitute a working group of experts to deliberate and submit reports on the various aspects like lowering of distribution cost, controls to reduce claims expenditure, introduction of cost audit in motor claims and concurrent audit on redressal of grievances. He also thanked NIA for the MOU and also for conducting courses with BFSIB.

CMA Dr. Tarun Agarwal said that harnessing the expertise of cost and management accountants has become relevant and it enables the insurance companies to enhance their operational efficiency so that they can manage risks effectively, optimize financial performance and thereby achieve sustainable growth in an increasingly competitive and dynamic insurance industry landscape. At this stage it is also imperative to delve into five major trends affecting the future of our insurance industry and they are very well aware of the widening trust gap in an uncertain world which is rapidly evolving the customer needs and preferences and in increasingly digital and AI driven world the cyber and climate risk are in focus on sustainability and it emphasizes the cyber sphere and climate area. The CMAs play a crucial role in

driving efficiency and fostering growth in the insurance industry and not only the insurance industry but also the industries in the overall development in the country which will ensure put the CMAs at the same level as other leading professions in the country. It is because of their expertise which can be harnessed effectively in the following areas which is cost management does in analysis of the budgeting and forecasting, performance management and key performance areas like risk management, product pricing and profitability analysis, data analytics and business intelligence compliance and regulatory reporting and last but not the least the strategic planning and decision support services.

CMA G. Srinivasan, the Former Chairman and Managing Director, The New India Assurance Company Limited and icon of the profession expressed that he felt that ICMAI and also the CMA professionals were always focused on the manufacturing sector on things like Cost Audits but in the last few years the Institute has realized the scope of CMAs in the services sector which today is a major part of the Indian economy and also growing very fast. BFSIB of ICMAI is playing a very active role in increasing the role of Cost Accountants in the financial services sector. He said that it's also a fact that there are many undiscovered CMA Professionals in the services sector who are silently applying their Knowledge and Skills and playing a key role in those companies and unfortunately the country is not aware of this fact. It is very important that we bring them on the board to connect them to the Institute so that the CMAs' role in Services sector increases and also it is recognized by the country as a whole. It is growing at 20 percent in Insurance Sector today is one of the fastest growing sectors of the Indian economy. There are many Indians who are not in the insurance net or not adequately insured. The government and the regulator IRDAI are assuring in huge reforms in the sector to ensure that insurance reaches every Indian citizen at the earliest. The regulators articulated a vision of insurance for all by 2047 and is working very hard to achieve that the reforms agenda of both the government and regulator are clearly on a fast track mode where some of the key reforms are happening at this point. In the next few months a new insurance bill is being brought in which will have many changes to bring Indian Insurance legislation to be in line with global standards. The regulatory reforms are happening to increase ease of doing business. The regulator has been working overtime to remove some of those archaic regulations and also to reduce the number of regulations which are currently there. The regulator is also working on promoting technology in the insurance so that Insurance can reach many people at a very low cost. The other area where the regulator is working is promoting policy holders interest ensuring that there is more transparency, the products are in the interest of the consumers and also to making sure that claims are settled in time and the Grievances of the customers are handled very efficiently. He iterated that the Regulators has also been working to bring in more insurers and more capital to the insurance industry because if Insurance sector has to grow multiple times as it is going to happen the industry needs Capital it needs more players more players will definitely ensure that the insurance goes deeper into the rural hinterland of our country.

Smt. M. Rajeshwari Singh, CMD National Insurance Company Limited, mentioned that the penetration level has marginally increased from 2.5% which was two decades ago to 4% in which again life insurance is around 3% and non-life is 1% so that it speaks that there is a lot of scope and now the landscape of insurance is rapidly on the change with The Regulators coming up with so many initiatives and the tagline being "insurance for all by 2047". She said that a lot of initiatives have been taken from the digital aspect, from giving ease of business to the insurance sector so that we can achieve that insurance for all by 2047 and it will just grow manifold in the next 20 years to come. It enhances a lot of scope for the cost accountants also to be associated with the insurance industry whether it is the product pricing or the underwriting or the risk acceptance by the insurance or whether it is the claims assessment and the financial part also the budgeting and the other aspects where CMAs can be the eyes and ears to the management in giving their inputs on the performance efficiencies and evaluation of all the strategies which have been put in place. So there is a lot of scope in the future for a collaboration between the insurance industry and the CMAs are already in a working committee also has which has been constituted and definitely give a road map ahead for a good collaboration between the CMAs as well as the insurance industry benefiting both the fraternities.

CMA Kaushik Banerjee, Secretary, ICMAI offered the vote of thanks at the end of the inaugural session and after that the technical session commenced with the presentation by CMA Shiba Prasad Padhi, Cost Accountant and SLA and Former Chairman, EIRC, ICMAI.

He stated that insurance in India it's around 10 lakh crore of rupees market, around 7.5 lakh crore is life insurance which is 3% of GDP and around 1% around 2.5 lakh crore pertains to non-life insurance. The insurance sector indeed is called a sunshine sector of our country because the growth rate i.e. the CAGR compounded annual growth rate of this industry is 20% no other industry in the country gives such a huge CAGR. CMAs can contribute in different capacities which is as an employee of the insurance company by designing and pricing a product, cost absorption, and can make

scientific detailed cost analysis which would help the actuaries and they can play a crucial role in pricing. CMAs can also contribute in Cost Analysis and Control. CMAs as employees can really add value in the cost analysis, cost optimization, cost control and cost management and as a result CMAs are the best fit to become a treasury officer and risk manager.

CMA Dr. Ashok Kumar Jain gave an overview of the insurance industry in India. He iterated that CMAs have the techniques and skill to contribute effectively to the requirements to the insurance industry. The speaker also said that this is the need of the hour that the ICMAI should take up with the regulator for inclusion of CMAs in various statues in various aspects for the public interest.

The seminar concluded after a thought provoking question and answer session.

SNAPSHOTS

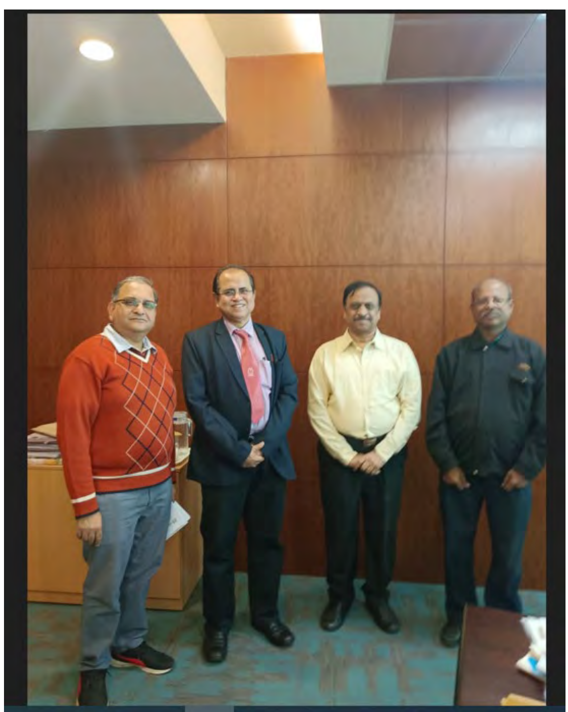
Shri Sumit Kumar, CGM, PFRDA is greeted by CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI along with CMA Suresh Gunjalli, Council Member, ICMAI and was accompanied by CMA Navneet Jain, Council Member, ICMAI at the PFRDA Office for discussing the upcoming event at the Retirement Solutions Month on 18th December, 2023

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI (centre) along with CMA Navneet Jain, Council Member, ICMAI (2nd from right) and CMA Suresh Gunjalli, Council Member, ICMAI (extreme right) met Dr. Deepak Mohanty, Chairperson, PFRDA (2nd from left) along with Shri Sumit Kumar, CGM, PFRDA (extreme left) on 18th December, 2023 at the PFRDA Head Office at New Delhi for discussing the upcoming event at the Retirement Solutions Month.

Lighting of the Lamp (L to R) CMA Abhijit Dutta, Chairman, Professional Development, EIRC, ICMAI, CMA Amal Kumar Das, Past President, ICMAI, CMA Manas Kumar Thakur, Past President, ICMAI, CMA Dr. Kaushik Banerjee, Secretary, ICMAI, CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, and CMA J. K. Budhiraja, CEO, ICMAI MARF, Seminar on 22nd December, 2023

Speech by Shri Subrata Mukherjee, Former Additional CVO, State Bank of India, Guest of Honour for the Seminar on "Practical aspects of surveillance, management control and audit expectations for early detection and prevention of all size fraud in Banks" on 22nd December, 2023

Speech by CMA J. K. Budhiraja, CEO, ICMAI MARF, Speaker for the Seminar on "Way Forward for CMAs to become Insolvency Professional" on 22nd December, 2023



CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI (2nd from left) met Officials of National Insurance Co. Ltd. along with Shri B. Ratna Kumar, CFO, National Insurance Co. Ltd. (2nd from left) on 4th January, 2024

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI (extreme right) along with CMA Avijit Goswami, Chairman, Members' Facilities Committee & PSU Coordination Board and Council Member, ICMAI (2nd from left) and CMA Amal Kumar Das, Past President of ICMAI (extreme left) met Sri P M Prasad, Chairman & Managing Director of Coal India Ltd. (2nd from right) at Kolkata on 8th January, 2024.

CMA Chittaranjan Chattopadhyay, Chairman BFSIB & IAASB and Council Member, ICMAI and presented a copy of our Quarterly BFSI Chronicle to Shri Arun Bansal, Executive Director and Head of Treasury of IDBI Bank Ltd. on 15th January, 2024 (R to L)

CMA Amit Apte, Past President, ICMAI (extreme left) flanked with CMA Chittaranjan Chattopadhyay, Chairman BFSIB & IAASB and Council Member, ICMAI (extreme right) felicitating CMA Dr. Tarun Agarwal, Director, National Insurance Academy (centre) at Pune on 12.02.2024

Shri Jeevan Sonparote CGM of SEBI (centre) visited ICMAI at Kolkata. We had very meaningful interaction with him by CMA Chittaranjan Chattopadhyay, Chairman BFSIB & IAASB and Council Member, ICMAI (3rd from left) also present were CMA Rajendra Bose, Director (Discipline) & Additional Director, ICMAI (2nd from left) and CMA Arnab Chakraborty, Director (Finance), ICMAI (extreme left) and CMA Dr. Kaushik Banerjee, Secretary, ICMAI (3rd from right) and CMA Rajat Kumar Bau, Additional Director (Tax Research), ICMAI (2nd from right) and CMA Dr. Debaprosanna Nandy, Senior Director (Studies, HR & Admin Kolkata), ICMAI (extreme right) on 16th February, 2024

Lighting of the Lamp (L to R) CMA Mahesh Shah, Past President, CMA Biswarup Basu, Past President, CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, CMA Dr. Ashish P Thatte, Chairman, Career Counselling and Placement Board, International Affairs Committee and Sustainability Standards Board, CMA Amal Kumar Das, Past President, Smt. Rajeshwari Singh Muni, CMD, National Insurance Co. Ltd., CMA Dr. Kaushik Banerjee, Secretary, ICMAI and CMA Dr. Tarun Agarwal, Director, National Insurance Academy

Speech by Smt. Rajeshwari Singh Muni, CMD, National Insurance Co. Ltd. Chief Guest for the event

Speech by CMA Dr. Tarun Agarwal, Director, National Insurance Academy, Guest of Honour and Speaker

Speech by CMA G. Srinivasan, Former, Chairman and Managing Director, New India Assurance Co. Ltd.Guest of Honour and Speaker

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.

AIDE MEMOIRE ON INFRASTRUCTURE FINANCING

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

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

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AIDE MEMOIRE ON LENDING TO MICRO, SMALL & MEDIUM ENTERPRISES SECTOR

(Including Restructuring of MSME Credit)

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MICRO, SMALL & MEDIUM ENTERPRISES
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Banking, Financial Services & Insurance Committee

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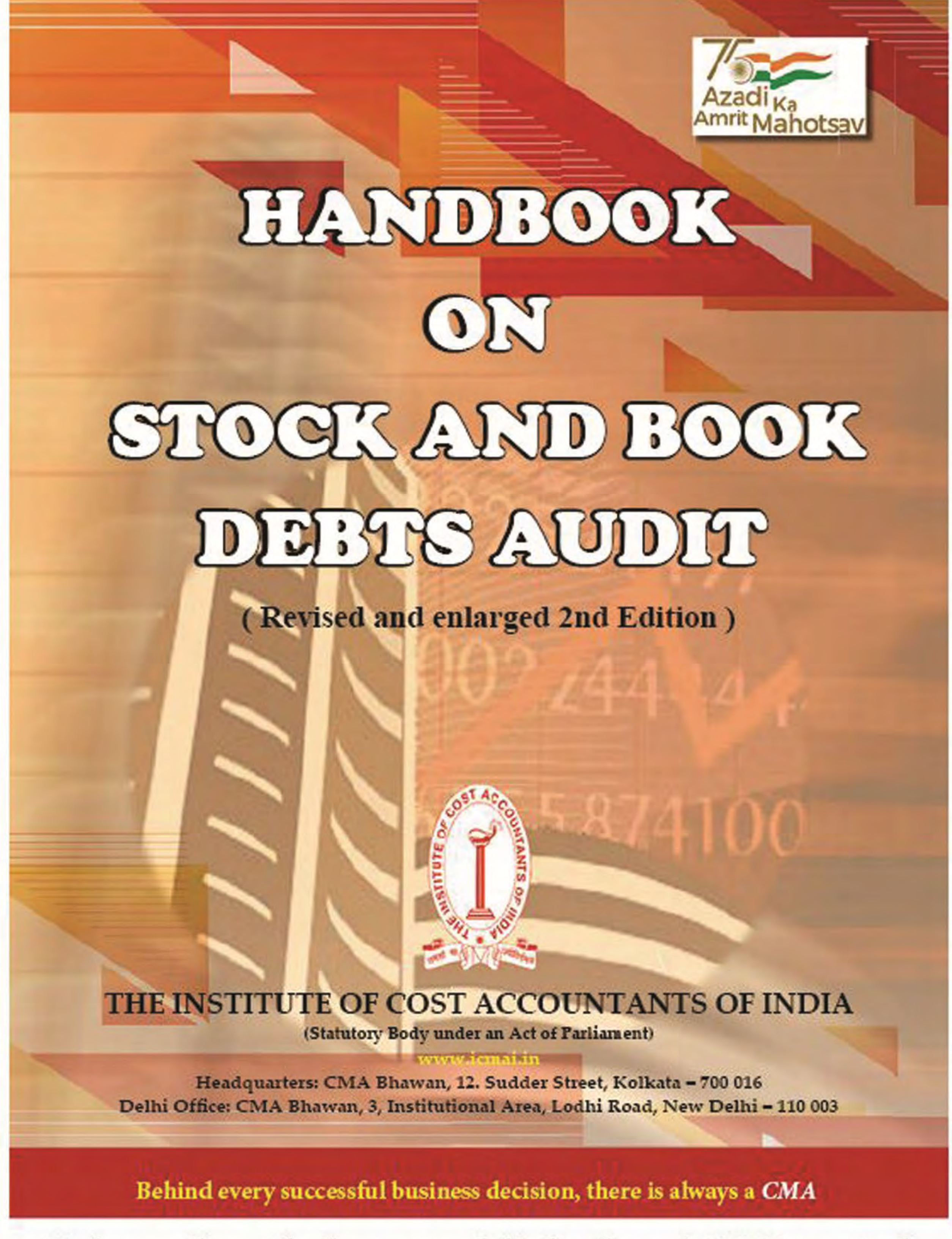
Details for Purchase: https://eicmai.in/booksale_bfsi/Home.aspx



It has already been published on BFSI portal

Handbook on

SETTLEMENT OF FOREIGN EXCHANGE IN INDIAN RUPEE

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ADVT. NO.: NIA/22-23/159

ACTIVITIES OF THE BFSI BOARD

The Banking, Financial Services & Insurance Board of the Institute and the BFSI department continued its various activities and initiatives in the quarter from January 2024 to March 2024, a synopsis of which is presented herein under -

A. 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 Chief Executive Officer in NPS Trust.
- CMAs are eligible to apply for various posts including Sr. Manager (Risk), Sr.Manager (MMGS-III), Manager (Risk), Manager (Credit) Union Bank of India.
- CMAs are eligible to apply for 1000 posts of Officer (Credit) in Punjab National Bank
- CMAs are eligible to apply for the post of Sr. Manager (Risk Management), The Municipal Co-operative Bank Ltd., Mumbai
- CMAs are eligible to apply for the post of Chairman and Managing Director in SIDBI.
- CMAs are eligible to apply for the post of Managing Director in National Housing Bank.
- CMAs are eligible to apply for the post of General Manager in Bassein Catholic Co-operative Bank Ltd.
- CMAs are eligible to apply for the post of Administrative Officers in National Insurance Co. Ltd.
- CMAs are eligible to apply for the post of Risk Management in IDBI Bank.
- CMAs are eligible to apply for the post of Senior Analyst Grade in various domains including lending operations, Investment and Treasury, Internal Audit & Compliance and Risk Management in NaBFID.
- CMAs are eligible to apply for the Chief Compliance Officer in India Exim Bank.
- CMAs are eligible to apply for the Circle Based Officers in State Bank of India.

The Institute has represented to the General Insurance Council for inclusion of CMAs for effective Enforcement of various IRDAI regulations including EOM IRDAI Regulations, 2023. We have represented to HDFC for inclusion of CMAs in the various recruitment advertisements in the posts of Internal Audit.

We have represented to Dakshin Bihar Gramin Bank for inclusion of CMAs in Cost Accountants for empanelment as Concurrent Auditor, Stock Auditor, Forensic Auditor, Certification of Turnover/Net Worth and other such certifications.

B. Certificate Courses on Banking

The admission for the 10th batch of the Certificate Course on Concurrent Audit of Banks, 8th Batch of the Certificate Course on Treasury and International Banking and 10th Batch of the Certificate Course on Credit Management of Banks has started and we request the members to enroll for the courses for professional development and capacity building.
The link for admission is stated as follows:

https://eicmai.in/OCMAC/BFSI/DelegatesApplicationForm-BFSI.aspx

We request all to provide their Expression of Interest for the admission as per the following link:
https://docs.google.com/forms/d/e/1FAIpQLSdx18Bm27SjBv83hUDP64j3jLmDuSIeVmGn2l2K3Epdg9P3Bw/viewform?vc=0&c=0&w=1&flr=0

C. Certificate Courses on Investment Management in collaboration with NSE Academy

The BFSI Board in association with the NSE Academy had started the Fundamental Analysis and Valuation (Level-I) from 3rd February, 2024 and completed on 3rd March, 2024. The admission window for the other two levels comprising of the, Mutual Funds and Market Analysis with Fundamentals (Level-II) and Financial Derivatives & it's application (Level-III) respectively are presently going on. The admission window is stated as follows:

https://eicmai.in/OCMAC/BFSI/DelegatesApplicationForm-BFSI.aspx

The Institute has also represented to IRDAI based on the feedback of the members for various suggestions on the Exposure Draft on IRDAI (Expenses of Management, including Commission, of Insurers) Regulations, 2023.

D.Insurance Month (February, 2024)

a) Hybrid Event on 21st February, 2024 at J.N.Bose Auditorium, ICMAI, Kolkata

The BFSI Board, ICMAI has organized the 1st physital event at the ICMAI Kolkata Office for the Insurance Month event titled "Driving Efficiency and Growth: Harnessing the Expertise of Cost & Management Accountants in the Insurance Industry ". The event was graced by Smt.Rajeshwari Singh Muni, CMD, National Insurance Co. Ltd. as the Chief Guest for the event. CMA Dr. Tarun Agarwal, Director, National Insurance Academy also graced as as the Guest of Honour and Speaker. The event had the online presence of CMA G. Srinivasan, Former Director, NIA and Former CMD, New India Assurance Co. Ltd. The other erudite speakers were namely CMA S.P. Padhi, Former Chairperson, EIRC, ICMAI and Insurance Consultant and CMA Dr. Ashok Kumar Jain, Former Deputy General Manager I/C , The Oriental Insurance Company Ltd., and Member of the BFSI Board, ICMAI.The event had the gracious presence of the Past Presidents namely CMA Amal Kumar Das, CMA Mahesh Shah and CMA Biswarup Basu.
CMA Dr. Ashish P. Thatte, Council Member and CMA Chittaranjan Chattopadhay, Chairman, BFSIB were also present along with CMA Dr.Kaushik Banerjee, Secretary, ICMAI.
The programme was attended by members, students both in physical and on an online forum.

b) Webinar on IFRS an Introduction

CMA Anjani Kumar Khetan, Regional Head of Finance, A renowned US Based MNC deliberated on 18th February, 2024 from 4 to 6 pm on the topic of IFRS: an Introduction . It was an event organized by the BFSIB in the Insurance Month.

E.Retirement Solutions Month (January 2024)

1. Webinar on "Retire with Confidence" organized on 12th January, 2024. Shri Sudhakar Kulkarni, Certified Financial Planner was the Chief Guest and Speaker.

2. Webinar on "Retirement: An eventual Reality "organized on 16th January, 2024 in association with PFRDA. Dr.Deepak Mohanty, Chairperson, PFRDA was the special Guest of Honour and Shri Pankaj Mathpal, CEO, Optima Money Managers was the Guest of Honour and key note speaker. CMA Soumit Das, Chief Mentor - Financial Goal Achievers (a Personal Finance Advisory Firm) was the other speaker for the event. Shri Sumit Kumar, CGM, PFRDA was the other speaker from PFRDA.

3. Webinar on " Retirement and Personal Cash Flow Management. " organized on 31st January, 2024. CMA Jaimin Sheth, Certified Financial Planner was the Speaker.

F. Webinars

1. Webinar on " Deciphering the impact of the three new laws on BFSI Industry" organized on 25th January, 2024. CMA Guruprasad G., Consultant was the Speaker.

2. Webinar on "Prevention of Money Laundering Act" organized on 1st December, 2023. Shri Balasubramanian K, IAS, Joint Secretary, Department of Revenue, Ministry of Finance was the Chief Guest and Speaker.

3. Webinar on "Drones Finance"(Under Corporate, MSME and Agriculture Segments by Commercial Banks) organized on 14th December, 2023. CMA Dr. Puvvala Siva Rama Prasad, Former AGM, SBI was the Speaker.

4. Webinar on " How to Rectify CIBIL Scores " organized on 21st December, 2023. CMA Dr. Puvvala Siva Rama Prasad, Former AGM, SBI was the Speaker.

5. Hybrid Seminar organized on 22.12.2023

The following technical sessions were organized by the BFSIB:

I) Practical aspects of surveillance, management control and audit expectations for early detection and prevention of all size fraud in Banks speaker was Shri Subrata Mukherjee, Former Addl CVO, State Bank of India

II) Way Forward for CMAs to become Insolvency Professional speaker was CMA J K Budhiraja, CEO, ICMAI MARF .

CMA Amal Kumar Das, Past President, ICMAI, CMA Harijiban Banerjee, Past President, ICMAI and CMA Mahesh Shah, Past President, ICMAI attended the event held at J.N.Bose Auditorium, ICMAI Headquarters, Kolkata. The BFSI Chronicle 15th issue was also released in the event.

6.Webinar on "AI - The Most Disruptive Technology of the Century and its Impact on Finance and Business" organized on 30th December, 2023. CMA Tamil Selvan Ramadoss, Group Finance & Business Transformation Officer was the Speaker.

G. Representations to IRDAI

a) The Institute represented to Member (Finance & Investment), IRDAI for inclusion of practicing CMAs in the IRDAI Regulations pertaining to Actuarial, Finance and Investment Function of Insurers and Investment Master Circulars for undertaking concurrent audit of the Investment Operations and Certification of the Investment Risk Processes of Insurers and Regulation 62 of Chapter 4 of the IRDAI (Protection of Policyholders' Interest and Allied Matters of Insurers) Regulations, 2024.

b) The Institute represented to Member (Finance & Investment), IRDAI for inclusion of practising CMAs in the IRDAI (Registration, Capital Structure, Transfer of Shares and Amalgamation of Indian Insurance Companies) Regulations, 2024 to provide certification services for Insurers seeking R2 Approval.

c) The BFSIB has requested the members to provide suggestions on the Exposure Draft ((Registration and Operations of Foreign Reinsurers Branches & Lloyd's India) Regulations, 2024). It was compiled from the responses received from the members and sent to IRDAI.

BROCHURES – COURSES OFFERED BY THE BFSI BOARD

Banking, Financial Services & Insurance Board

BROCHURE

CERTIFICATE COURSE ON CREDIT MANAGEMENT OF BANKS

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

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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

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Institute's Strength

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Institute's Network

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Vision Statement

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Mission Statement

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

Course Objective

The 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

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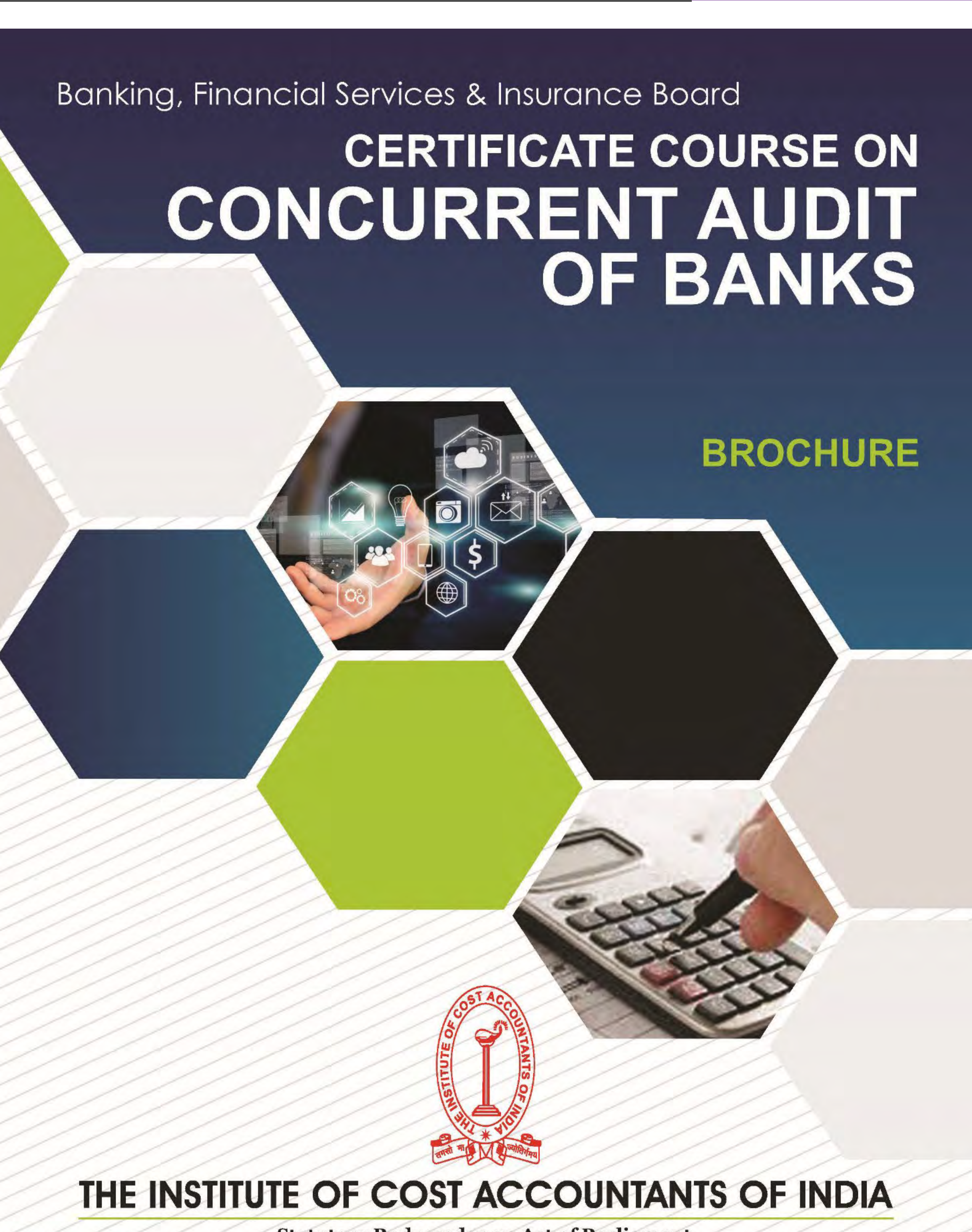
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The Banking, Financial Services and Insurance Board is pleased to offer **Certificate Course** on **"Concurrent Audit of Banks"** for Officials of Regional Rural Banks and Small Finance Banks to enable participants to understand the intricacies of 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.

Detailed Course Content

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

Certificate Course on Concurrent Audit of Banks

Detailed Course Content

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

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

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

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

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

Contact for further queries

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

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Statutory Body under an Act of Parliament

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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 TREASURY AND INTERNATIONAL BANKING

BROCHURE

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Certificate Course on Treasury and International Banking

About The Institute

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

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

International Affiliation

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

Institute's Strength

The Institute is the largest Cost & Management Accounting body in the World, having a large base of about 1,00,000 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 116 Chapters situated in India, 11 Overseas Centres abroad, 2 Centres of Excellence, 61 CMA Support Centres and 401 Recognized Oral Coaching Centres.

Vision Statement

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

Mission Statement

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

Course Objectives

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

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

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

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

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

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

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

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

Course Eligibility

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

Course Duration

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

Course Fees

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

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

Examination

Rs. 750 plus GST per attempt.

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

Certificate Course on Treasury and International Banking

Syllabus

SECTION - 1

a. Introduction to the Money Market:

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

b. Capital Markets:

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

c. Foreign Exchange Markets:

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

d. External Markets:

- ✓ External Commercial Borrowings
- ✓ GDRs / ADRs

e. Derivatives Markets:

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

SECTION - 2

a. Scope and Function of Treasury Management:

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

b. Domestic Cash Management:

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

c. Cost Centre / Profit Centre:

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

d. Liquidity Management:

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

e. Treasury's Role in International Banking:

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

f. Revaluation Mark to Market and Profit Calculations:

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

SECTION - 3

a. Introduction:

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

Certificate Course on Treasury and International Banking

Syllabus

b. Measurement and Control of Risk:

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

c. Assets Liability Management:

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

d. Hedging the Risk:

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

Contact for further queries

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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BROCHURE

ONLINE
CERTIFICATE COURSE IN

GENERAL INSURANCE

IN ASSOCIATION WITH

NATIONAL INSURANCE ACADEMY

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NATIONAL INSURANCE ACADEMY
https://niapune.org.in

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Institute's Strength

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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

Behind Every Successful Business Decision, there is always a CMA

Certificate Course in General Insurance in association with 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, 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 - Addl. Director, Secretary & HoD, BFSIB
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.

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FINANCIAL SNIPPETS

- Indian Banks grew at 12.2 percent in financial year FY 2023
- UPI payments rise 42% to Rs. 18 lakh crore in December, 2023
- Banks Deposits double in a little over 7 years crossing Rs. 200 trillion mark
- Banking liquidity deficit tops Rs. 2 lakh crore on lower spending
- RBI draws up checklist for AI Tech in Banking
- RBI states that no minimum balance charges on inoperative accounts
- IT returns top 8 crore for the 1st time
- Pension schemes added 97 lakh subscribers in 2023
- New demat additions jumped 29 % in 2023
- Bulk deposit limit enhanced to Rs. 1 crore for large UCBs
- Banks write off Rs. 10.57 trillion in 5 years
- Mutual Funds SIP Collections soars to Rs. 1.66 lakh crore in 2023
- SEBI extends deadline to June 2024 to add nominees in mutual funds, demat accounts
- Premiums of non-life insurers up 15 % in December, 2023
- Investment Income of life insurance industry down 6.63 % to Rs. 3.89 lakh crore in FY 23
- IRDAI has notified the new consolidated regulation on expenses of management
- 34 % of life insurance policies issued to women in FY 23
- IRDAI forms task force to study impact of DPDP Act
- IRDAI sets up panel to increase banks' participation in selling insurance products
- Nine states get nod for strategic investment plan for MSME units
- RBI bars JM Financial from financing against shares and debentures; major deficiencies cited
- Securitisation of loans originated by small finance banks to cross Rs 10,000 cr in FY2024, says ICRA
- 30 banks join RBI UDGAM portal for unclaimed deposits
- Loans to women grow at 19% in 2023; personal loans jump fastest
- NUCFDC, sets target to establish one urban cooperative bank in each town
- 21% fewer fresh corporate subscribers join national pension system in 2023
- With 4.1 crore transactions in a single day, NEFT sets a new payment milestone
- Term deposits formed 98% of incremental deposit growth in Apr-Dec 2023
- Paytm and Paytm Payments Bank to discontinue inter-company pacts amid RBI action
- RBI says more than 97% of 2,000-rupee notes returned since May 2023
- RBI issues revised norms to streamline bill payments process
- SEBI moves to restrict inflows into small- and mid-cap mutual funds
- Government launches Sarathi Portal to help insurance firms reach out to farmers
- ESIC extends medical benefits for retired members
- RBI bars fintechs from issuing biz credit cards on KYC issues

BFSI QUIZ COMPETITION

Q1. Which bank has offered $68 million in funding to IIFL Home Finance for expanding footprint in the affordable and green housing segment in February 2022?

Q2. In India Commercial banks have the highest share in the disbursement of loan to which sector?

Q3. The International Monetary Fund (IMF) raised India's growth forecast in the fiscal year 2023-24 to_:

A] 6.5 %
[B] 6.3 %
[C] 6.0 %
[D] 5.8 %

Q4. As per the 'World Bank's Latest Global Economic Prospects Report', what is the growth rate of the global economy in 2023?

[A] 2.1%
[B] 2.5%
[C] 2.7%
[D] 3.0%

Q5. For international money transfer, which Indian bank has signed MoU with the American Company 'Money Gram'?

Q6. RBI is empowered to vary the CRR of commercial banks between?

Q7. The Reserve Bank of India issues notes under which note issued method?

Q8. SEBI has set _____ as the lower limit for the IDRs to be issued by the Indian companies.

Q9. The artificial currency created by IMF to be used as supplementary Reserve Asset is called as

Q10. The 'Foreign Trade Policy 2023' aims to boost India's merchandise and services exports by 2030 by?

[A] USD 1 trillion
[B] USD 2 trillion
[C] USD 5 trillion
[D] USD 10 trillion

CORRECT ANSWERS OF PREVIOUS QUIZ:

1. *SBI*
2. *Bank of Japan*
3. *Bills of Exchange/Promissory Note*
4. *1st April'24*
5. *8.12% p..a*
6. *RBI*
7. *2035*
8. *10 million*
9. *Virtual Digital Asset*
10. *6.1%*

NOTES

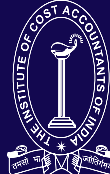
Contact Details

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

CMA Dibbendu Roy, Addl. Director, Secretary & 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

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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