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Chronicle

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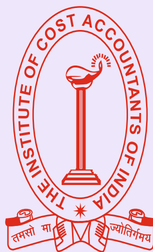

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

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Behind every successful business decision, there is always a CMA

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

Mission Statement

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

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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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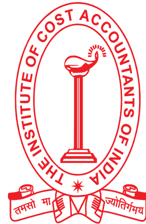

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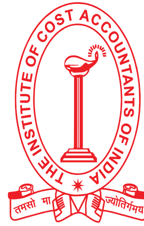

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MESSAGE FROM THE CHAIRMAN

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

Greetings and salutations!!

"All our dreams can come true, if we have the courage to pursue them." — Walt Disney

Now, we see with the end of election season and the NDA Government forming the Government and we have positive vibes provided by the Industry Inc. We know that a static interest rate regime and with the GDP having a growth rate of 8.4 % in the last quarter the future looks to be at the best.

I would like to provide a report card on the activities undertaken by the BFSIB under my leadership. Inspite of all handicaps and bottlenecks I would like to apprise the following activities undertaken by the Department:

Launch of the Investment Management course in association with the NSE Academy: The BFSIB in association with NSE Academy have completed the Level-I and II and in the process of admission for the Level-III which is based on Derivatives.

Execution of Banking courses: The BFSI Department has successfully conducted the Certificate Courses in Banking including Certificate Course on Credit Management of Banks (presently the 10th batch admission is going on), completion of 10th batch of the Certificate Course on Concurrent Audit of Banks and start of the 8th batch of the Certificate Course on Treasury and International Banking. We are in the process of revising the syllabus and soon the courses will be repositioned with new syllabus. The examination of BFSI is going on from Test from Home on procter method. The courses would be sooning getting the nod of NCVET,

Approval of the Advance Certificate of the Fintech Course: The Council has approved the Advance Certificate Course on Fintech. The admission process will be soon starting the benefit of the participants.

Launch of Publications: The BFSI Board has successfully completed various publications including Aide Memoire on Infrastructure Financing (2nd and revised and enlarged edition), Central Bank Digital Currency, Monograph on Net Zero Emissions Audit for Financing by Banks, quarterly publication of BFSI Chronicle which would be the 17th edition of the BFSI Chronicle to be released in June, 2024.

Daily News Digest: The BFSI Department during the early morning hours dispatches the BFSI Daily Updates relevant to the Banking, insurance and Financial Services verticals to members and students. We are providing presently from Monday to Saturday each week.

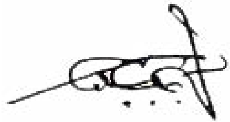
Webinars and Seminars : The BFSI Board organized more than 20 webinars on various aspects relevant to the members and students in the BFSI sector. Further, the BFSI Department organized physical events where doyens in the Insurance and Banking Sector graced the occasion. We had the privilege of organizing the Insurance Month where Director, National Insurance Academy and CMD of National Insurance Co. Ltd visited at HQ Auditorium. We also had the privilege of hosting the Chairman, PFRDA in one of the webinar hosted in the Retirement Solutions month held in the month of January, 2023.

Representation to BFSI Community: The BFSI is pioneer in providing representations to the regulators including RBI, IRDAI and SEBI. We also are privileged to state many organizations have included CMAs in PFRDA, SIDBI, Cooperative Banks and other financial institutions on vigorous representation of the Department.

Updates in the BFSI portal: We are disclosing job vacancy and inclusion of CMAs in job and professional activities whenever we are to track it.

The Department is operating tirelessly with a minimal yet dedicated workforce. Under the able guidance of the Head of Department, the work is being executed exceptionally well, directly fostering a positive image for the growth and development of the BFSI Department.

With warm regards,



CMA Chittaranjan Chattopadhyay

FROM THE DESK OF THE DEPARTMENT

The Election results has been declared and the NDA formed Government for the third time. The capital markets especially, Sensex has soared past the 76000 mark and we are strongly moving towards the 1 lakh mark. The political stability with the consistency of policy making and with ministers retaining the same portfolio shows that the government is intended to undertake a proper roadmap for 'Viksit Bharat'. The Corporate earnings has also shown a growth of 13.2 percent in sales figure. It eventually showcases that the BFSI sector is having 70 percent of the incremental profit. The Banks showed good business growth and impressive profit numbers beating the expectations of the analysts.

This summer has been the warmest in the whole of last century where 36 out of 51 major Indian cities reached the 37°C threshold since the voting began. It was observed that 18 cities experienced over 40°C for more than three days in April. We can now see that the heat wave is spreading across several parts of the country. The farm productivity will be affected which in turn will create increasing trend in inflation. The supply chain disruption will impose challenges in food prices and would significantly impact the prices of perishable items and we hope it is not a long lasting impact and normal monsoons will ease away the supply constraints.

The Reserve Bank of India has kept the repo rates same and it shows that the regulator is cautious about the dynamics in the global geopolitical scenario. We hope the war situation in Gaza and Ukraine eases down and we have a steady growth outlook in the coming days –in socio-political, geopolitical and humanitarian grounds.

The digital transformation of banks and increasing cyber frauds has made The Reserve Bank of India strictly monitor the fintech companies offering high interest rates and following predatory lending practices. We need to involve artificial intelligence (AI) for protection of the consumers' interest and with Generative Artificial Intelligence (GenAI) having the capacity to enhance cybersecurity this would create a sustained economic growth with financial stability.

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Risk Assessment Methods in the Banking Sector

Shri Govind Gurnani
Former AGM,
Reserve Bank of India

The banking sector has a huge role to play in the development of the economy. Certainly, it is the driver of the economic growth of the country. It plays an important role in identifying the idle resources for their efficient utilisation to attain maximum productivity. However, this process involves risks. Banks are highly regulated in order to promote financial stability, foster competition, and protect consumers. And since the risk is directly proportional to returns, the more risk a bank take, the higher it can generate profits. Hence, measuring risks in banks is a critical aspect of risk management to ensure the stability and soundness of the financial institution.

In March 2023, when the US banking turmoil had taken place, the Reserve Bank of India Governor had said "the recent developments in the US banking system drive home the importance of ensuring prudent asset liability management, robust risk management and sustainable growth in liabilities and assets in the banking sector, among others."

Risk management refers to identifying, assessing, and mitigating risks that banks face in their day-today operations. It is a comprehensive approach involving various risk management tools, techniques, and methodologies to manage risks effectively.The objective of risk management in banking is to minimise the impact of risks on the bank's operations, financial performance, and reputation.

- **Types Of Risks Faced By The Banks**

  1. Credit Risk
  2. Market Risk
  3. Liquidity Risk
  4. Interest Rate Risk
  5. Compliance and Legal Risk
  6. Reputational Risk
  7. Concentration Risk
  8. Cybersecurity Risk
  9. Foreign Exchange Risk
  10. Financial Crime Risk

1. Credit Risk

Credit risk refers to the potential loss arising from a bank borrower or counterparty failing to meet its obligations in accordance with the agreed terms. Credit risk analysis is the means of assessing the probability that a customer will default on a payment before you extend trade credit.

- **Credit Scoring Models**

  Credit scoring models are statistical tools that evaluate creditworthiness and determine the likelihood of default on credit obligations. These models are used by credit bureaus & lenders to assess the risk of lending money or extending credit to individuals or businesses.

  The credit scoring model evaluates various factors, including payment history, credit utilisation, length of credit history, types of credit accounts, & recent credit inquiries. Each factor is assigned a weight, and the model's formula calculates a credit score based on the evaluation.

  A credit score typically ranges from 300 to 850, with a higher score indicating a lower risk of default. Lenders use credit scores to make decisions about loan terms, including interest rates, repayment periods, and loan amounts. A good credit score can result in favorable loan terms, while a poor score can lead to higher interest rates and less favorable terms.

- **Credit Risk Models**

  Credit risk model is a method that uses statistical techniques to evaluate a borrower's creditworthiness and estimate the likelihood of them defaulting on their payments.These models can range from simple credit scoring models to complex models that consider multiple factors, including:

  - Financial statements
  - Credit bureau data
  - Alternate data

- **Factors Affecting Credit Risk Modelling**

  For lenders to minimise credit risk, credit risk forecasting needs to be more precise. Here are some factors to consider:

  Probability of default

  Probability of default (PD) is the likelihood that a borrower will fail to pay their loan obligations, and lenders use it to assess the level of risk that comes with loaning money. For individual borrowers, the PD is typically based on two primary factors:

  1. Credit score
  2. Debt-to-income ratio

  Loss Given Default

  Loss given default (LGD) refers to the amount of money a lender is likely to lose if a borrower defaults on a loan, helping them predict and manage their risk exposure. LGD accounts for:

  - Value of the collateral
  - The type of loan
  - The legal framework in which the lender operates

  It helps lenders with credit risk management and make informed decisions about loan pricing and underwriting.

  Exposure At Default

  Exposure at default refers to the amount of possible loss a lender is exposed to at any point in time, allowing them to better manage their risk. It considers factors including:

  - The outstanding principal balance
  - Accrued interest
  - Any fees or penalties associated with the loan

2. Market Risk

Market risk is the risk of losses on financial investments caused by adverse price movements. Examples of market risk are: changes in equity prices or commodity prices, interest rate movements or foreign exchange fluctuations.

For assessment of market risk, there are mainly two approaches :

- Value at Risk Model
- Sensitivity Analysis Model

- **Value At Risk Model**

  Value at Risk (VaR) is a statistic that is used in risk management to predict the greatest possible losses over a specific time frame. VaR modeling is a statistical risk management method that quantifies a stock's or portfolio's potential loss as well as the probability of that potential loss occurring.

  VaR is defined as the maximum amount expected to be lost over a given time horizon, at a pre-defined confidence level. For example, if the 95% one-month VAR is ₹1 million, there is 95% confidence that over the next month the portfolio will not lose more than ₹1 million.

  VaR can be calculated using different techniques. Under the parametric method, also known as variance-covariance method, VaR is calculated as a function of mean and variance of the returns series, assuming normal distribution. With the historical method, VaR is determined by taking the returns belonging to the lowest quintile of the series (identified by the confidence level) and observing the highest of those returns. The Monte Carlo method simulates large numbers of scenarios for the portfolio and determines VAR by observing the distribution of the resulting paths.

- **Sensitivity Analysis Model**

  Sensitivity analysis to market risk reflects the degree to which changes in interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect a financial institution's earnings or capital. Sensitivity analysis determines how different values of an independent variable affect a particular dependent variable under a given set of assumptions. Market variables like interest rates, exchange rates, asset prices, etc., impact businesses significantly. Analysts can analyse these variables to help organisations evade exposure to market risks and develop necessary hedging strategies.

  Sensitivity analysis can be carried out manually or using a Microsoft Excel spreadsheet. However, manual calculations might seem challenging if the dataset is vast.

3. Liquidity Risk

Liquidity risk is the risk of loss resulting from the inability to meet payment obligations in full and on time when they become due. Liquidity risk is inherent to the Bank's business and results from the mismatch in maturities between assets and liabilities.

- **Gap Analysis**

  Gap analysis is a method of asset-liability management and helps assess liquidity risk. Gap analysis assesses the maturity profile of assets and liabilities to identify potential funding gaps.

- **Stress Testing**

  A liquidity stress test aims to measure the level of liquidity the institution must maintain to ensure a continuous ability to meet financial obligations in stressed conditions. It simulates adverse scenarios to evaluate the bank's ability to withstand liquidity shocks.

4. Interest Rate Risk

Interest rate risk refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates.

For assessment of interest rate risk, there are five approaches :

- Earnings at risk
- Duration Analysis
- Simulation Analysis
- Gap Analysis §§ Value at Risk

- **Earnings at Risk**

  Earnings at risk is a risk measurement of the amount by which net income may adversely change due to interest rates fluctuations. In simple words, earnings at risk measures the potential impact of interest rate changes on a bank's earnings.

- **Duration Analysis**

  Duration analysis measures the sensitivity of a bond's or fixed income portfolio's price to changes in interest rates.

- **Simulation Analysis**

  Simulation analysis involves using computer models to estimate the potential impact of various interest rate scenarios on a bank's financial position and performance.

- **Gap Analysis**

  Gap analysis is a commonly used method for measuring interest rate risk. It involves comparing the repricing of assets and liabilities within specified time periods, which helps identify potential mismatches that could affect a bank's net interest income.

  Using gap analysis, banks can assess their exposure to repricing risk and develop strategies to mitigate the potential impact of interest rate changes.

  However, this method may not fully capture the complexity of a firm's interest rate risk exposure, particularly when considering yield curve risk and optionality risk.

- **Value At Risk**

  Value at Risk (VaR) is a statistical technique used to estimate the potential losses a bank could incur due to changes in market factors, including interest rates.

  VaR calculates the maximum potential loss a bank could experience within a specified time period and confidence level. Using VaR, banks can quantify their interest rate risk exposure and develop strategies to manage this risk.

5. Compliance & Legal Risk

Compliance risk refers to the potential damage banks face when they fail to comply with industry standards, laws and regulations. This risk involves both financial penalties and reputational damage. Legal risk is when a bank fails to comply with regulations or contractual terms. It is caused by internal errors, flawed processes, and deliberate infractions.

- **Regulatory Compliance Audits**

  Ensures adherence to regulatory requirements.

- **Legal Risk Assessments**

  Identifies and manages legal risks associated with contracts, litigation, and other legal matters.

6. Reputational Risk

Reputational risk is associated with an institution losing consumer or stakeholder trust. It's the risk that those consumers and stakeholders will take on a negative perception of the bank following a particular event.

- **Customer Feedback and Surveys** Monitors customer satisfaction and feedback.

- **Media Monitoring**

  Keeps track of media coverage and public perception.

7. Concentration Risk

Concentration risk refers to the potential for financial loss due to an overexposure to a single counterparty, sector, or geographic region.The presence of concentration risk increases the vulnerability of a portfolio to market fluctuations and economic downturns.

- **Portfolio Diversification Analysis**

  Examines the concentration of risks across various segments.

- **Geographic and Industry Exposure Analysis**

  Assesses risk concentrations in specific regions or industries.

8. Cybersecurity Risk

Cybersecurity risk is the potential for exposure or loss resulting from cyberattack or data breach on your institution.

- **Vulnerability Assessments**

  Identifies weaknesses in the bank's cybersecurity infrastructure.

- **Incident Response Planning**

  Prepares for and responds to cybersecurity incidents.

9. Foreign Exchange Risk

Foreign exchange risk is the chance that a bank will lose money on international trade because of currency fluctuations.

- External Forex Risk Mitigation Strategies
  - forward contracts
  - currency futures
  - currency options
  - currency swaps
- Internal Forex Risk Mitigation Strategies
  - Invoicing in own currency
  - Build protection into your commercial relationships/contracts
  - Natural foreign exchange hedging
  - Hedging arrangements via financial instruments

10. Financial Crime Risk

Financial crime risk refers to any kind of criminal conduct relating to money or to financial. services or markets, including any offence involving: (a) fraud. or dishonesty; or (b) misconduct in, or misuse of information. relating to, a financial market; or (c) handling the proceeds of.

- Implement KYC ID verification measures
- Perform FATF recommended due diligence measures
- Record Maintenance of high risk clients
- Monitoring of accounts for suspicious financial activity & its reporting to RBI.

Investment Classification Norms for Banks (w.e.f 1.4.2024)

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Abstract:

The Reserve Bank of India has revised norms for the classification, valuation and operation of investment portfolios of commercial banks. According to the new guidelines released on September 12, banks will have to classify their investments – except investments in their own subsidiaries, joint ventures and associates – into three categories from the next financial year: available for sale (AFS), held to maturity (HTM) and a new category called fair value through profit and loss, or FVTPL.

The existing held for trading (HFT) category will become a sub-category of the FVTPL, the central bank said in a press release.

The revised norms were prepared after considering feedback received on a discussion paper issued on January 14, 2022, proposing changes for the classification, valuation, and operation of investment portfolios of banks.

The revised directions apply to all commercial banks (excluding regional rural banks) from April 1, 2024.

Abbreviations:

AFS = Available for Sale.

FVTPL = Fair Value Through Profit and Loss

HFT = Held for Trading.

HTM = Held to Maturity.

IFRS = International Financial Reporting Standards (IFRS).

IRACP = Income Recognition, Asset Classification and Provisioning (IRACP).

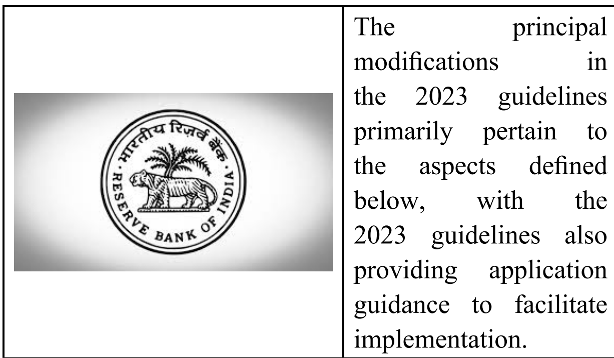
MTM = Mark-To-Market.

NPI = Non-Performing Investment.

Commercial Banks are presently obligated to adhere to the Master Direction-Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021 (2021 Regulations) for the Classification and Valuation of their Investment Portfolio. These Regulations introduced in 2021 are predominantly grounded on a framework established in October 2000, which was formulated based on the prevailing Global Standards and Best Practices at that time.

Given the significant advancements in the Global Standards pertaining to the Classification, Measurement, and Valuation of Investments, such as the International Financial Reporting Standards (IFRS), along with the interconnections with the Capital Adequacy framework and advancements in the Domestic Financial Markets, a reassessment and revision of the 2021 regulations became necessary.

Consequently, on 12 September 2023, the Reserve Bank of India (RBI) released updated Regulatory Directives on Investment Classification and Valuation-the Master Directions– Classification, Valuation and Operations of Investment Portfolio of Commercial Banks (Directions), 2023 (2023 Guidelines).



The principal modifications in the 2023 guidelines primarily pertain to the aspects defined below, with the 2023 guidelines also providing application guidance to facilitate implementation.

Re-classifications between Categories:

Upon adoption of this framework, it is mandated that banks refrain from reallocating investments among various categories (namely HTM, AFS, and FVTPL) without obtaining the authorization of their Board of Directors. Moreover, any such reassignment must also receive the requisite approval from the Department of Supervision (DoS) at the Reserve Bank of India (RBI).

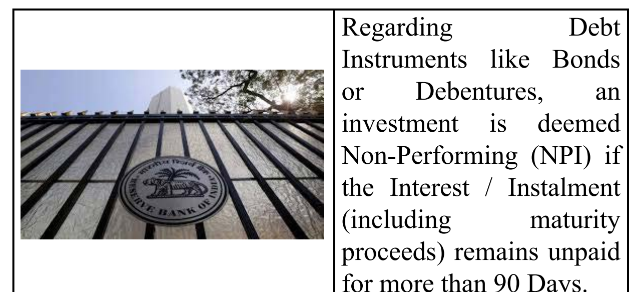
The reclassification process should be implemented on a prospective basis starting from the date of reclassification.

In instances where a bank opts to transfer investments from one category to another, the corresponding accounting treatment must adhere to the guidelines delineated in the following table. Additionally, the bank is obligated to provide comprehensive disclosure regarding the particulars of such reclassification, inclusive of the related adjustments, in the footnotes accompanying the financial statements.

Sl. No.	From	To	Accounting Treatment
a	**HTM**	**AFS**	✓ The fair value measured at the reclassification date shall be the revised carrying value. ✓ Any gain or loss arising from a difference between the revised carrying value and the previous carrying value shall be recognised in AFS-Reserve.
b		**FVTPL**	✓ The fair value measured at the reclassification date shall be the revised carrying value. ✓ Any gain or loss arising from a difference between the revised carrying value and previous carrying value of the investments shall be recognised in the Profit and Loss Account under Item (III): 'Profit on revaluation of investments' under Schedule 14: 'Other Income'.
c	**AFS**	**HTM**	✓ The investments are reclassified at its fair value at the reclassification date. ✓ However, the cumulative gain/loss previously recognised in the AFS-Reserve shall be withdrawn therefrom and adjusted against the fair value of the investments at the reclassification date to arrive at the revised carrying value. ✓ Thus, the revised carrying value shall be the same as if the bank had classified the investment in HTM ab initio itself.
d		**FVTPL**	✓ The investments shall continue to be measured at fair value. ✓ The cumulative gain or loss previously recognised in AFS-Reserve shall be withdrawn therefrom and recognised in the Profit and Loss Account, under Item (III): 'Profit on revaluation of investments' under Schedule 14: 'Other Income'.
e	**FVTPL**	**HTM**	✓ The carrying amount representing the fair value at the reclassification date remains unchanged.
f		**AFS**	

Non-Performing Investments (NPIs):

The Classification of an Asset as Non-Performing Asset (NPA) under the existing Prudential Norms on Income Recognition, Asset Classification and Provisioning (IRACP) for Advances is also utilized for Categorizing an Investment as a Non-Performing Investment (NPI). A Non-Performing Investment (NPI) can only be reclassified as standard when it fulfils the criteria outlined in the IRACP Norms.



Regarding Debt Instruments like Bonds or Debentures, an investment is deemed Non-Performing (NPI) if the Interest / Instalment (including maturity proceeds) remains unpaid for more than 90 Days.

The Provision is similarly applicable to Preference Shares where the Fixed Dividend is not Disbursed. In situations where the Dividend on Preference Shares (Cumulative or Non-cumulative) is not paid in any year, it is considered due/unpaid in arrears with the issuer's balance sheet date for that year serving as the due date for asset classification purposes. Such an investment can be upgraded subsequently upon payment of the current period's dividend in the case of non-cumulative preference shares, and payment of dividends in arrears and for the current period in the case of cumulative preference shares.

For Equity Shares, if the Valuation of Shares in any Company is ₹1 per Company due to the unavailability of the latest Balance Sheet, those Equity Shares are Classified as NPI. The NPI status can be revised upon receipt of the audited balance sheet.

If an Issuer's Credit facility is Classified as NPA in the Bank's records, Investments in any Securities, including Preference Shares issued by the same issuer, are also considered NPI and vice versa. However, this condition does not apply when only Preference Shares are designated as NPI. In such instances, investments in other performing securities from the same issuer do not need to be classified as NPI, and any performing credit facilities granted to that borrower are not treated as NPA.

In cases where principal and/or interest are converted into Equity, Debentures, Bonds, etc., these instruments are categorized in the same Asset Classification as the Loan, and Provisions are made accordingly. If the Post-conversion Classification is standard or is later upgraded as per IRACP Norms.

Once an investment is classified as NPI, it must be separated from the rest of the Portfolio and not included in Netting Valuation Gains and Losses.

Banks are not allowed to accrue any Income on NPIs. Income is only recognized upon realization, and any Mark-to-Market Appreciation in the Security is disregarded.

Irrespective of the Classification (HTM, AFS, or FVTPL including HFT) of the Investment, the recognition of Expenses for impairment provision always occurs in the Profit and Loss Account.

The NPI should have a provision, which is the greater of:

- ✓ The required provision according to IRACP norms calculated based on the Investment's carrying value before it became NPI; and
- ✓ The depreciation on the investment in relation to it carrying value at the time of being classified as NPI.

No additional depreciation provision is needed besides the NPI provision mentioned above.

For AFS investments with cumulative gains in AFS-Reserve, the necessary provision can be established by debiting AFS-Reserve up to the amount of available gains. Conversely, AFS investments with cumulative losses in AFS-Reserve will have the losses transferred from AFS-Reserve to the Profit and Loss Account.

Upon an account being upgraded as per IRACP norms, any previously recognized provision will be reversed, allowing for the symmetrical recognition of MTM gains and losses to resume.

Investments in Government securities and Government guaranteed investments, specifically Central Government Securities and State Government Securities, are not classified as NPI.

Central Government guaranteed securities are also not considered NPI unless the government repudiates the guarantee upon invocation. For such securities held in AFS and FVTPL, Banks will keep recognizing MTM Gains/Losses in AFS-Reserve and Profit and Loss, respectively. However, income will only be recognized upon realization.

Investments in State Government Guaranteed Securities will be subject to Prudential Norms for NPI identification and provisioning if any payment due to the bank remains outstanding for over 90 days.

Guidelines from the 1st of April 2024:

Investment Classification is a crucial aspect:

Categorization of the Investment Portfolio will consist of Three main groups:

- ✓ Held to Maturity (HTM).
- ✓ Available for Sale (AFS) and
- ✓ Fair Value through Profit and Loss (FVTPL).

Within FVTPL, Held for Trading (HFT) will be a distinct subcategory, in line with the specifications of the '**Trading Book**' under the Basel III framework. The 2023 guidelines eliminate the maximum timeframe for selling investments in the HFT Category.

Furthermore, the 2023 guidelines have updated the Classification of Investments in Subsidiaries, Associates, and Joint Ventures.

Initial Recognition:

Upon Initial Recognition, all Investments must be valued at Fair Value. It is generally assumed that the acquisition cost represents the fair value unless circumstances indicate a significant variance. As per the regulations of 2021, investments are initially recorded at the acquisition cost.

Subsequent Measurement: The 2023 Guidelines specify that:

⇒ Investments in HTM should be recorded at Cost and not subject to Marked-to-Market (MTM) adjustments post-initial recognition.

⇒ Investments in AFS should be fairly valued at least quarterly, if not more frequently.

⇒ Securities under the HFT sub-category within FVTPL should be fairly valued daily, while other FVTPL securities should be fairly valued at least quarterly, if not more frequently.

⇒ Holdings in subsidiaries, associates, and joint ventures should be carried at acquisition cost.

HTM Investments:

Previously, the 2021 regulations-imposed limits on HTM Investments as a percentage of the Total and on Statutory Liquidity Ratio (SLR) Securities held under HTM. These restrictions have been removed. However, the Regulations for Selling from HTM have been strengthened to ensure adherence to the fundamental principles of HTM Classification. Sales from HTM must comply with the Bank's Approved Policy, with details disclosed in the Financial Statements.

Reclassification between Categories:

Following the transition to the New Regulatory framework, Banks are prohibited from reclassifying Investments between Categories (HTM, AFS, and FVTPL) without approval from the Board of Directors and RBI. During the Transition Period, Banks have a one-time option to reclassify investments and adjust resulting gains or losses.

Valuation:

In order to enhance Consistency and Comparability in Fair Value measurements and disclosures, the 2023 guidelines require the investment portfolio to be Segmented into Three Fair Value hierarchies:

✓ Level 1.

✓ Level 2, and

✓ Level 3.

Disclosure requirements regarding Fair Valuation have also been established.

Investment Reserve Account:

The necessity of upholding an Investment Reserve Account (IRA) could be eliminated. Any remaining balance in IRA as of 31 March 2024 should be transferred to the Revenue/General Reserve, subject to the Bank meeting the minimum regulatory criteria of Investment Fluctuation Reserve (IFR). In cases where the Bank falls short of the Minimum IFR prerequisites, the funds in IRA ought to be moved to IFR. The obligation to uphold IFR persists.

Enhanced Disclosures:

The 2023 Directives have mandated comprehensive disclosures that must be included in the Financial Statements for the Year ending 31 March 2025. The Disclosures related to Fair Value Hierarchy will need to be disclosed in the Financial Statements for the year ending 31 March 2026 and beyond.

Conclusion:

The revised Directions shall apply to all commercial banks (excluding Regional Rural Banks) from the financial year commencing on April 1, 2024. The present Directions are anticipated to enhance the quality of financial reporting by banks, improve the disclosure practices (specifically regarding the fair value of investments in the HTM category, fair value hierarchy, sales out of HTM, etc.), boost the corporate bond market, facilitate the utilization of derivatives for hedging purposes, and fortify the overall risk management framework within banks. The updated Directions align the accounting standards for banks' investment portfolios with international financial reporting norms, while crucial prudential measures like the investment fluctuation reserve (IFR), due diligence/ limits related to non-SLR investments, internal control mechanisms, assessments, and reporting procedures have been preserved, and concerns regarding the reliability of valuation have been tackled.

References:

Reserve Bank of India (Classification, Valuation and Operation of Investment Portfolio of Commercial Banks) Directions, 2023- September 12, 2023.

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Climate Related Financial Risks : Assessment and Disclosure Framework

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Background

The global Risks Report released by the 'World Economic Forum' in February 2024 has highlighted the climate related risks as one of the most challenging perceived risks to the world. As per the said report,the ten year outlook is dominated by environmental concerns, since four out of the top five biggest risks are associated with climate and environmental background. It is also seen as the second most severe risk over a two year time frame. This broadly takes the shape of extreme weather conditions, critical change to earth systems, natural resource shortages and disasters. Recognising the far-reaching impact of all this on the financial world, the Reserve Bank of India took a proactive step and had come up with a detailed 'Discussion paper on Climate Risk and Sustainable Finance ' in July 2022. This contained a Comprehensive coverage of the various issues involved with reference to the financial sector and underlined the need to evolve an effective strategy on climate change with integration of 'climate related and environmental risks' with various prudential risk categories like credit, market, liquidity and operational risks.Based on the feedback received and international best practices,the RBI has now brought out 'Draft Disclosure Framework on Climate related Financial Risks 2024' vide circular dated 28 th February 2024, which is applicable to all scheduled commercial banks and other Regulated entities. We here delve into the various aspects of the proposed disclosure framework which will have significant impact on the future strategies and operations of the Banks.

Broad Dimensions of Climate Change

At global level, broadly two approaches are being adopted to tackle climate change. The first approach is 'Mitigation 'which involves reducing emissions and stabilisation of the heat trapping green house gases in the atmosphere. The second approach is to ensure "Adaptation 'to climate change which is already in pipeline.Mitigation, inter alia includes the usage of new technologies, and renewable energies making older equipment more efficient and changing management practices and consumer behaviour. Adaptation aims to reduce or avoid harm and the same will vary from place to place, depending on the risk to humans and ecological systems. Both these aspects are going to be taken into account while undertaking any risk assessment, as the climate change impacts various stake holders involved in the financial world in a multidimensional manner.

Climate Related Financial Risk Management Features and Disclosure framework

The climate related financial risks primarily imply the potential riks that may arise from climate change or from efforts to mitigate climate change , their related impacts and economic and financial consequences.While formulating the framework,the RBI has taken into account the concepts and methodologies as discussed in the global level institunal/ professional best practices. These include BCBS (Basel committee on banking supervision) and IFRS (International Financial Reporting Standards) publications.The Climate related financial risks have been broadly divided into 'Physical Risks' and 'Transition Risks'.

The 'Physical Risks', as per the RBI circular will include the economic costs and financial losses resulting from the increasing severity and frequency of:

a) extreme climate change related weather events such as floods , heatwaves landslides srorms and wildfires known as acute physical risks

b) Longer term gradual shift of the climate such as changes in precipitation (rain/snow), extreme weather variability, ocean acidification, rising sea levels and average temperatures known as chronic physical risks and

c) indirect effects of climate change such as loss of ecosystem services (e.g water shortage, degradation of soil quality or marine ecology)

Thus we see that a comprehensive set of adverse events related to climate change have been included, with an intent to handle the problem in a holistic and sustainable manner.

The 'Transition Risks' means the risks related to the process of adjustment towards a low carbon economy viz 1)changes in climate related policies and regulations 2) emergence of newer technologies 3)shift in customers' preferences and behaviour.All these varied set of issues are to be taken into account by the banks as a part of assessment measurement and mitigation of the climate related financial risks .

As proposed in the discussion paper of July 2022 , the policies and their implementation by the banks shall revolve around the four thematic pillars viz 1)Governance, 2)Strategy 3) Risk management and 4)Metrics and targets .Each bank will need to go into their existing business mix, credit portfolio and allocation of resources.Fresh set of strategies and plans will need to be evolved taking into account the disclosure requirements proposed by RBI .In respect of each of the above thematic pillars ,RBI has brought out 'base line disclosure' and 'Enhanced Disclosure ' which are quite elaborate and go into depth of the various aspects of climate change related issues involved.The nature, likelyhood and magnitude of effects of climate related financial risks are to be assessed taking into account qualitative factors/quantitative thresholds or a combination of the both .

The climate related financial risks and opportunities will need to be identified,assessed and measured .The climate related risk drivers and their transmission channels will need to be taken into account.The climate related financial risks will also need to be prioritised and monitored and integrated into overall risk management system of the institution.Both scenario analysis and stress testing tools will be required to be used.Targets will need to be set based on the interal policies as also those stipulated ,if any,by external agencies/regulatory authorities/Statues. Different time horizons viz short , medium and long term will need to be kept in view.

The regulated entities will be required to evolve and report on the strategies relating to climate resilience ,which means the capacity to adjust to climate related changes, developments or uncertainties .It involves the capacity to manage climate related risks and benefits from Climate related opportunities , including the ability to respond and adapt to climate related physical and transition riks. It includes both strategic and operational resilience of the regulated entities to climate related changes.

The disclosures, as discussed above, will need to be included and discussed, as apart of financial results / statements on the website of the regulated entities.The commencement of this framework of disclosure for scheduled Commercial Banks , AIFIs ,Top and Upper layer NBFCs is FY 2025- 26 onwards in respect of the first three thematic pillars viz Governance, Strategy and Risk Management.The timelines for disclosure about the fourth thematic pillar i e Metrics and Targets is FY 2027-28 onwards for the above set of institutions.

Need For a Robust Mechanism

Since the entire framework is going to be implemented for the first time,the RBI has given examples/additional information on various points (in the footnotes of the circular) and also various reference points of other publications/ knowledge resources .This will include National Guidelines on Responsible Business Conduct ,as notified by ministry of corporate affairs, Business Responsibility and Sustainability Reporting (BRSR) as notified by SEBI ,GRI (Global Reporting Initiative) standards 2021,IFRS S2 Climate Related Disclosures by International Sustainability Standards Board , Science Based Targets Initiative (SBTI) etc. The regulated entities will need to study carefully such publications/resources to understand the finer points and nuances of various relevant factors and requirements involved .A well considered strategy and road map will require in depth study and analysis of the entire circular for meticulous implementation.

There are expected to be several challenges on account of non - availablity of relevant data and requisite skill sets for accurate risk assessment.The regulated entities will ,inter alia, also be required to disclose climate related physical and transition risks - amount and percentage of assets vulnerable to both the risks.Disclose the capital deployment - amount of financing or investment deployed towards climate related risks and opportunities.

The Basel Committee on Banking Supervision had brought out a detailed document on 'Climate -related financial risks - measurement methodologies ' in April 2021.This report is an important source of understanding the various aspects of climate related financial risks and it's measurement and various issues involved in this respect.This report undercores the fact that climate related financial risks have unique features necessitating granular and forward looking measurement methodologies.This document underlines the need to build a framework to systematically translate climate change scenarios into standard financial risk which may require a mix of approaches.There are likely measurement gaps in data and suitable steps are required in this direction.

Climate Change Funding Opportunities

While we have discussed the various Financial risk assessment aspects,the huge funding required for country's climate action to achieve the Nationally Determined Contribution (under the COP framework),needs to be kept in mind.

According to one estimate,we require US Dollar 10.1 trillion to scale up our transition to net zero emissions by 2070.The medium term goal is to achieve 500 GW renewable capacity by 2030 . Similarly,India will need 27 GW of grid scale battery energy storage system by 2030 as per CEA estimates. India thus requires substantial capital investment in renewable energy, battery storage, e vahicles ,and new emission reducing technologies in its efforts for energy trasition.While there are successful efforts in the shape of issuance of sovereign green bonds, innovative financial instruments and risk mitigation mechanisms will need to be evolved with structured incentives and costs to ensure regular flow of funds both global and domestic. Lines of credit at subsidised rates from multilateral agencies like world bank to Indian financial institutions is expected to facilitate easy credit and attract investments and private capital

Conclusion

The RBI guidelines on Disclosure Framework on Climate - related Financial Risk ,is a significant step towards the evolution and formulation of a robust mechanism to handle climate related financial risks and bring out the requisite strategies backed by effective governance. A collaborative approach ,with participation and support from climate scientists and financial experts will help in successful evolvement of strategies and sound Risk management.

Appropriate competencies and skills will need to be developed by the Regulated Entities to oversee the comprehensive response to the climate related changes. Constructive and consistent efforts are needed to enhance the measurement , monitoring and management of climate related financial risks to ensure a meaningful disclosure framework.

Financing to Farmers Producers Organizations by Banks

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Farmers Producers Organizations (FPOs) are perceived as a crucial tool for intervening in the improvement of farmers' welfare in India. Given that over 85 percent of farmers are smallholders, accessing modern production technologies, market information, conducting transactions in input or output markets, and ensuring profitability pose significant challenges.

The consolidation of farmers through FPOs contributes to achieving economies of scale in various on-farm and off-farm activities across:

⇒ Pre-production.

⇒ Production and

⇒ Post-production Phases.

Over the past decade, the Government of India has been actively encouraging the establishment of FPOs through various programs and initiatives. Entities such as Small Farmers' Agri-Business Consortium (SFAC) and National Bank for Agriculture and Rural Development. (NABARD) have introduced specific schemes to foster the establishment of FPOs in the country.

Presently, there are over 7,597 FPOs in India operating under diverse legal frameworks, with a majority structured as companies under the Companies Act, 2013 followed by those under the Cooperative Societies Act of respective States, and some as Societies or Trusts. Producer Companies operate on the principles of mutual assistance and patronage, amalgamating favourable elements from both Co-operative and Corporate sectors to benefit Primary Producers, particularly small and marginal farmers.

The advisory and value-added services provided by FPOs have facilitated timely decision-making among farmers. Nonetheless, numerous challenges impede the long-term sustainability and expansion of FPOs, particularly as they scale up. Many FPOs are nascent and small in terms of member count and

✓ Equity Capital.

✓ Making them less Appealing to Financial Institutions for Funding.

✓ Addressing issues like Inadequate Comprehension of Business Planning.

✓ Insufficient Funding.

✓ Neglecting Recruitment of Skilled Managers.

✓ Weak Governance Structures.

✓ Regulatory Compliance Hurdles and

✓ Marketing Obstacles.

Are imperative to Cultivate a conducive Environment for FPOs.

Currently, Farmer Organizations in India exhibit a Variety of Legal Structures including:

✓ Producer Company (Under Companies Act, 2013).

✓ A Co-operative (Under Co-operative Societies Act).

✓ Non-profit Entity (Under Companies Act, 2013).

✓ Trust (Under Indian Trusts Act, 1882).

The Primary Agricultural Cooperative Society (PACS) stands as a longstanding form of producer organizations in India. Moreover, there exist numerous other Producer Organization formats serving Specific or Multiple function(s) such as:

- Self-help Groups (SHGs),
- Federation of SHGs,
- Common Interest Groups (CIGs),
- Joint Liability Groups (JLGs),
- Farmers' Club, among others.

Nevertheless, the Inefficacy of Farmer Collectivization through Co-operatives in the Agricultural Sector, the Escalating Agrarian Crisis, and the simultaneous rapid expansion of the Private Sector via Corporatization prompted a Novel Approach of amalgamating the beneficial traits of Co-operatives and Corporations.

In 2000, a Committee Chaired by Prof. Y. K. Alagh proposed the concept of Producer Companies. Subsequently, in 2002, the Companies Act of 1956 was revised to incorporate a New Section 'Part IXA' dedicated to 'Producer Companies', establishing a fresh form of Corporate Entity.

Suggestions for Organic Growth of FPOs:

Funding: Substantial funding for the initial phases is essential, beyond just covering Promotional Expenses. Of utmost importance are the Working Capital needs of Farmer Producer Organizations (FPOs) as they commence activities in the Early Stages, such as procuring inputs in bulk. This is due to the inadequacy of the Share Capital possessed by FPOs.

Loan Products: The Agricultural Sector is distinguished by its pronounced seasonality, volatile prices, extended lead times, and intricate value chains. Hence, it is imperative to meticulously devise Loan Products tailored for this sector. The Customization of Loan Products for FPOs needs to occur at two levels:

(a) Individual Farmer-member Level; and

(b) FPO Level.

For Farmer-members, options like Kisan Credit Cards can facilitate funding during initial production, while Term Loans can support further developmental endeavours. At the FPO Level, Specialized Products can aid in delivering effective services to members, for instance, assisting in the Hiring of Machinery / Tools.

Value Chain Financing under Priority Sector Lending: Alongside Working Capital Loans to finance the aggregation of produce from members, FPOs can access loans for enhancing the quality along the value chains of their produce. For instance, FPOs involved in pulses might require loans for small Dall Mills, Cotton Ginning Units in Cotton-growing Regions, Decorticators for Groundnuts, and so forth. This Approach also encourages Innovation within the value chains managed by Producer Organizations (POs) and their farmer-members.

Warehouse Receipts Financing: Previous engagements of NABARD with a collateral management entity (Origo, Hyderabad) indicate the advantages of involving Primary Agricultural Credit Societies (PACS) to enhance lending practices. Certified Warehouses regulated by the Warehouse Development and Regulatory Authority (WDRA), operating independently, can issue Negotiable Warehouse Receipts. Farmers can utilize these receipts to secure loans from Banks, PACS, and other Co-operative Banks, thereby mitigating Price Risks.

Dedicated Agri-business Bank: The Establishment of a Specialized Agribusiness Bank was proposed during a round table conference on FPOs at IIM Bangalore in April 2014, sparking debates. Additionally, recommendations were made for SFAC or NABARD to establish a dedicated Non-Banking Financial Company (NBFC) to cater to the financial requirements of the Agri-business Sector. It is advised that Commercial Banks, Regional Rural Banks, and Co-operative Banks view this as a Lucrative Opportunity to provide Financing to FPOs, Leveraging their extensive Rural Branch Networks.

General Policy Matters:

Priority Sector lending for FPOs: The existing RBI guidelines on priority sector lending by banks already acknowledge FPOs. However, there is a need to expand this scope to encompass activities such as "Agri-input Supply, Agro-machinery rental/operation, Agri-processing, Packing, Storage, and Transport Units" owned by FPOs under the umbrella of Agricultural Priority Sector Lending.

NABARD and SFAC are poised to lead the advocacy efforts for Farmer Producer Organizations (FPOs). The imperative to foster FPOs at a magnitude akin to the Self-Help Group (SHG) movement is evident. The ascendancy of SHGs can be attributed to NABARD's persistent cultivation of the concept and collaboration with diverse Government entities to establish a conducive policy milieu. It is essential to underscore the promotional role played by both SFAC and NABARD.

Advocacy towards Commercial Banks necessitates proactive engagement by NABARD and SFAC to Enlighten the Banks on financing FPOs, commencing the Educational Drive at State and District-level Platforms such as State Level Bankers Committee (SLBC) and District Consultative Committee (DCC) meetings Organized by Banks.

The involvement of Regional Rural Banks (RRBs) in Financing FPOs has been lacking, despite their extensive Rural Outreach in comparison to Commercial Banks. RRBs have the potential to play a Pivotal Role in funding FPOs, offering Operational Working Capital Limits like Cash Credit Facilities, Crop Loans for Farmers, SHG Loans for Farming Interest Groups (FIGs) / SHGs for Crop Cultivation, and other Agricultural requirements.

Various Financial mechanisms such as Interest

Subvention, Guarantee Funds, Research and Development Funds, IT Funding for Technological Innovations, and Price-Risk Cushion Funds can all contribute significantly to Bolstering FPO promotion in India.

Producer Organizations are integral to uplifting Small and Marginal Farmers from Poverty and enhancing their Competitiveness in Agricultural Markets. Viewing this as a potential 'Second Green Revolution' necessitates the implementation of sustainable and inclusive Agricultural Development measures within the existing resources. Producer Organizations represent a distinctive avenue towards realizing this Objective and should, therefore, be effectively advocated and supported.

Financing to FPOs by Banks (These instruction differ from Bank to Bank):

Objectives: To meet the credit requirements of the Farmer Producer Companies / Organizations in the form of term loans to create an asset and Working capital loan to meet the recurring expenditure.

Nature of Limit:

⇒ Term loans for investment purpose.

⇒ Working capital.

⇒ Composite loan comprising of both working capital and term loan requirements.

Eligibility Criteria:

✓ Farmer Producer Companies/Organizations shall be registered under legal provisions i.e. Cooperatives, Producer Companies, Farmer Producer Companies, Societies and Trust.

✓ Members and stake holder of the FPCs/FPOs shall be farmers, milk producers, fishermen, weavers, rural artisans, craftsmen and institutions of primary producers.

✓ The productive land under an FPC/FPO shall be around 500 to 4000 ha.

✓ The minimum number of farmer producers in FPC is 500.

✓ FPC/FPO with six months of active operations from the date of registration minimum capital of Rs 5.00 lakh, positive net worth and one audited balance sheet

✓ In case of FPCs/FPOs eligible for Equity Grant and Credit Guarantee Scheme, SFAC guidelines issued on the scheme to be followed.

Loan amount:

✓ Maximum loan amount under financing per FPC/FPO is ₹ 1.00 Crore.

Third party Guarantee:

✓ As per bank's existing guidelines.

Margin:

✓ Term loan: Minimum 15%.

✓ Cash credit: Minimum 20%.

Security:

Primary Security:

✓ Hypothecation of assets created out of bank finance

Collateral Security:

✓ No collateral security shall be obtained in case the loans are covered under credit guarantee scheme implemented by SFAC.

✓ In all other cases, branches to obtain Minimum 100% collateral security.

Repayment:

✓ Term Loan: Repayment period maximum up to 7 years (including the moratorium period of maximum 12 months)

✓ Working Capital:12 months subject to renewal annually.

Forms & Documents:

✓ Application, copy of bye laws, copy of proceedings/resolution/Inter se agreement by all members, articles of agreement by authorized members, appropriate DPN, Letter of continuity, Hypothecation agreement, General Term loan agreement, Letter of general lien and set-off, mortgage deed, third party guarantee, comprehensive insurance of assets, letter of general lien and setoff, undertaking from borrower/guarantor for disclosure to CIBIL and any other document stipulated in sanction advise of the Banks.

Conclusion:

The Aims of the Farmer Producers Organisation are to ensure better income for the producers through an organization of their own. Small producers do not have the volume individually (both inputs and produce) to get the benefit of economies of scale. Besides, in agricultural marketing, there is a long chain of intermediaries who very often work non-transparently leading to the situation where the producer receives only a small part of the value that the ultimate consumer pays. This will be eliminated, through aggregation, the primary producers can avail the benefit of economies of scale. Farmers Producers will also have better bargaining power in the form of the bulk buyers of produce and bulk suppliers of inputs.

References:

(a) NABARD Guidelines.

(b) ICAR Guidelines.

Echoes of Change: A Journey through India's Banking Landscape

Dr. Jyotsna Haran

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Once upon a time, in the bustling streets of Mumbai, there stood a grand old building adorned with marble pillars and arched doorways. This was the headquarters of one of India's oldest public sector banks, a testament to the nation's economic evolution.

Our story begins in the 1940s, amidst the zeal of independence, where the seeds of change were sown. The British Raj was coming to an end, and with it, the need for a banking system that served the interests of the people. It was a time of hope and uncertainty, where the future of India's financial sector hung in the balance.

In the aftermath of independence, the newly formed government embarked on a mission to democratize banking. Public sector banks emerged as the cornerstone of this vision, tasked with the noble duty of serving the common man. With the stroke of a pen, policies were enacted, and institutions were established, laying the foundation for a new era in banking.

As the decades passed, India witnessed a whirlwind of change. From the Green Revolution to the IT boom, each chapter in the nation's history left its mark on the banking sector. Public sector banks stood at the forefront, adapting to the shifting tides of economic progress.

But with change comes challenges, and the road was not always smooth. The specter of bureaucracy loomed large, casting a shadow over efficiency and innovation. Yet, amidst the chaos, there were moments of triumph – tales of bankers going above and beyond to serve their customers, of communities coming together to build a brighter future.

And so, our story comes full circle, as we find ourselves in the present day, where the echoes of change still reverberate through the halls of India's public sector banks. They stand as monuments to resilience, testaments to the enduring spirit of a nation in flux.

As the sun sets over Mumbai, casting a golden hue upon the city's skyline, one thing remains clear – the journey of India's public sector banks is far from over. With each passing day, they continue to evolve, guided by the winds of progress and the promise of a better tomorrow.

"Turning Tides: The Evolution of Public Sector Banks in 1980s India"

In the bustling landscape of 1980s India, amidst the vibrant chaos of economic reforms and political shifts, the nation's public sector banks found themselves at a crossroads. It was a time of both uncertainty and opportunity, as the winds of change swept through the corridors of power and commerce.

The year 1980 marked a significant turning point in the history of public sector banks in India. With the nationalization of six more banks, the government sought to consolidate its control over the banking sector, furthering its vision of financial inclusion and social welfare. This move, while controversial, was seen as a bold step towards leveling the playing field and empowering the masses.

As the newly nationalized banks grappled with their newfound status, they faced a myriad of challenges. Bureaucratic red tape and inefficiencies threatened to stifle innovation, while competition from private players loomed on the horizon. Yet, amidst the chaos, there were glimmers of hope – tales of bankers rising to the occasion, of communities rallying together in the face of adversity.

The 1980s also witnessed the dawn of technological innovation in banking. With the advent of computers and electronic systems, public sector banks began to modernize their operations, streamlining processes and improving efficiency. This technological revolution paved the way for greater accessibility and convenience, empowering customers and bankers alike.

But as the decade drew to a close, cracks began to appear in the facade of India's public sector banks. Mounting bad debts and non-performing assets threatened to derail the system, casting doubt on the efficacy of government control. Calls for privatization grew louder, as critics argued for greater autonomy and accountability in banking operations.

And so, as the sun set on the 1980s, the stage was set for a new chapter in the saga of India's public sector banks. The challenges of the past decade had forged them into resilient institutions, capable of weathering the storms of change. Yet, the road ahead was fraught with uncertainty, as they grappled with the twin forces of tradition and transformation.

As the dawn of a new decade beckoned, one thing was clear – the evolution of public sector banks in India was far from over. They stood as symbols of resilience and adaptability, ready to face whatever the future may hold.

Resilience in Flux: Public Sector Banks in Contemporary India

In the dynamic landscape of contemporary India, the transitional history of public sector banks continues to unfold amidst the backdrop of economic reforms, technological advancements, and shifting societal expectations. As we delve into the years 2022-24, we find these venerable institutions navigating a terrain marked by both challenges and opportunities.

The period spanning 2022-24 witnessed a confluence of factors shaping the trajectory of public sector banks in India. On one hand, the aftermath of the COVID-19 pandemic posed unprecedented challenges, with economic disruptions and fiscal strains testing the resilience of the banking sector. On the other hand, technological innovations and policy reforms heralded new possibilities, driving a wave of digitization and transformation.

Amidst this backdrop, public sector banks embarked on a journey of reinvention, embracing digital solutions to enhance efficiency and customer experience. Online banking platforms, mobile apps, and digital payment systems became ubiquitous, offering customers greater convenience and accessibility. These technological advancements not only streamlined banking operations but also opened up new avenues for financial inclusion, empowering underserved communities across the country.

Furthermore, regulatory reforms and government initiatives aimed at revitalizing the banking sector brought about significant changes in governance and accountability. Measures to address the issue of non-performing assets and strengthen risk management frameworks were implemented, signaling a renewed commitment to financial stability and prudence.

However, the path to transformation was not without its obstacles. Public sector banks grappled with legacy issues such as bureaucratic inertia and inefficiencies, hindering their ability to adapt swiftly to changing market dynamics. Competition from private players and FinTech startups intensified, prompting public sector banks to recalibrate their strategies and enhance their competitive edge.

Amidst these challenges, the resilience of public sector banks excelled through, driven by a sense of purpose and duty towards their stakeholders and the nation at large. From supporting small businesses and farmers to extending credit to marginalized communities, public sector banks remained steadfast in their commitment to socio-economic development and inclusive growth.

As the story of public sector banks in India continues to unfold, one thing remains certain – their journey is a testament to the enduring spirit of resilience and adaptation in the face of change. Whether navigating turbulent waters or seizing new opportunities, these institutions stand as pillars of stability in India's ever-evolving financial landscape, guided by a legacy of service and stewardship.

The Evolution of Merged Public Sector Banks

In recent years, India's banking landscape has witnessed a significant transformation through the consolidation and merging of public sector banks. This strategic move by the government aimed to address various challenges faced by the banking sector, including capitalization issues, inefficiencies, and non-performing assets. As we delve into the transitional history of merged public sector banks, we uncover a narrative of adaptation, synergy, and renewed purpose.

The process of merging public sector banks began in earnest in 2019, with the amalgamation of several banks to create stronger, more resilient institutions. This wave of mergers sought to streamline operations, improve efficiency, and enhance the competitiveness of the banking sector. It also aimed to leverage economies of scale and technological integration to better serve customers and support economic growth.

One of the most notable mergers during this period was the amalgamation of Punjab National Bank, Oriental Bank of Commerce, and United Bank of India in 2020, creating the second-largest public sector bank in India. This merger

brought together complementary strengths and resources, fostering a culture of collaboration and innovation within the newly formed entity.

Similarly, the merger of Canara Bank with Syndicate Bank and the amalgamation of Union Bank of India, Andhra Bank, and Corporation Bank marked significant milestones in the consolidation process. These mergers aimed to create stronger, more efficient banks capable of withstanding economic shocks and driving financial inclusion across diverse regions and communities.

As the dust settled on these mergers, the merged public sector banks embarked on a journey of integration and transformation. They focused on harmonizing processes, systems, and organizational cultures to realize synergies and unlock value. This involved rationalizing branches, optimizing human resources, and leveraging technology to streamline operations and enhance service delivery.

However, the road to integration was not without its challenges. Merged public sector banks grappled with teething issues such as IT integration, cultural differences, and employee morale. Yet, amidst these challenges, there emerged a sense of shared purpose and determination to overcome obstacles and emerge stronger together.

Today, the merged public sector banks stand as beacons of resilience and adaptability in India's banking landscape. They continue to evolve, guided by a commitment to excellence, customer-centricity, and sustainable growth. As they forge forward into the future, these institutions remain steadfast in their mission to drive economic development, foster financial inclusion, and uphold the trust and confidence of their stakeholders.

Unveiling Synergies: The Benefits of Recent Merging of Public Sector Banks

The recent merging of public sector banks in India has sparked discussions about its potential benefits for the banking sector, economy, and stakeholders at large. This strategic initiative by the government aimed to address various challenges faced by individual banks while unlocking synergies and enhancing the overall efficiency and competitiveness of the banking landscape. Let's delve into some of the key benefits that have emerged from these mergers:

- **Enhanced Financial Strength**: One of the primary benefits of merging public sector banks is the consolidation of resources and capital, leading to enhanced financial strength and stability. By pooling together assets, liabilities, and reserves, merged entities are better equipped to withstand economic shocks and fluctuations, thereby bolstering investor confidence and safeguarding depositors' interests.
- **Operational Efficiency**: Merging public sector banks streamlines operations, eliminates duplication, and reduces overhead costs. This leads to improved operational efficiency and productivity, allowing banks to allocate resources more effectively towards core banking activities such as lending, risk management, and customer service. Standardizing processes and systems across merged entities also enhances consistency and compliance with regulatory requirements.
- **Economies of Scale**: Consolidation enables merged public sector banks to leverage economies of scale, driving cost savings and optimizing resource utilization. By rationalizing branches, consolidating administrative functions, and centralizing decision-making processes, banks can achieve greater efficiency in serving customers across diverse geographic locations. This not only reduces operational costs but also enhances service delivery and accessibility for customers.
- **Risk Diversification**: Merging public sector banks leads to a more diversified loan portfolio and risk exposure, reducing concentration risk and enhancing overall risk management capabilities. By combining complementary strengths and expertise, merged entities can better assess and mitigate credit, market, and operational risks, thereby safeguarding their financial health and resilience in the face of unforeseen challenges.
- **Technological Advancements**: Consolidation facilitates the integration of technology platforms and digital infrastructure, enabling merged public sector banks to harness the power of innovation and digitalization. This allows for the development of advanced banking services, such as online banking, mobile apps, digital payments, and AI-driven analytics, to meet the evolving needs and preferences of customers in an increasingly digital economy.
- **Competitive Edge**: Merged public sector banks emerge as stronger and more competitive players in the banking sector, capable of vying with private and foreign banks on equal footing. This enhanced competitiveness fosters innovation, customer-centricity, and product differentiation, driving healthy competition and raising the overall standards of

service and performance across the industry.

The recent merging of public sector banks in India heralds a new era of opportunity and transformation for the banking sector. By capitalizing on synergies, enhancing efficiency, and fostering innovation, merged entities are poised to drive sustainable growth, financial inclusion, and economic development, thereby contributing to the prosperity and well-being of the nation.

Challenges of recent merging public sector banks

The recent merging of public sector banks in India, while holding promise for the future, also presents a set of challenges that require careful consideration and proactive management.

Some of these challenges could be-

- **Cultural Integration**: Merging banks often have distinct organizational cultures, work practices, and employee mindsets. Harmonizing these diverse cultures and fostering a sense of unity and collaboration within the newly formed entity can be a daunting task. Resistance to change, turf wars, and communication barriers may hinder the smooth integration process, impacting employee morale and organizational effectiveness.
- **IT Integration and System Compatibility**: Merging public sector banks often entail integrating disparate IT systems, platforms, and infrastructure. Ensuring seamless interoperability and compatibility between legacy systems and modern technology platforms is a complex and time-consuming endeavor. IT integration challenges, such as data migration, system downtime, and cyber security risks, may disrupt operations and compromise service quality if not managed effectively.
- **Branch Rationalization and Customer Disruption**: Consolidating branches and service delivery channels is a key aspect of merging public sector banks to achieve cost savings and operational efficiency. However, branch rationalization can lead to customer disruption, inconvenience, and dissatisfaction, especially for those in remote or underserved areas. Balancing the need for efficiency gains with maintaining customer accessibility and service quality is a delicate balancing act.
- **Human Resource Management**: Mergers often result in workforce redundancies, reassignments, and restructuring, which can create uncertainty, anxiety, and resistance among employees. Managing the human aspect of mergers, including talent retention, skill development, and cultural integration, is critical to maintaining employee motivation, engagement, and productivity during times of change. Failure to address these challenges effectively may result in talent flight, knowledge loss, and organizational dysfunction.
- **Governance and Regulatory Compliance**: Merging public sector banks must navigate complex regulatory frameworks, compliance requirements, and governance structures. Ensuring adherence to regulatory standards, transparency, and accountability while integrating operations and systems is paramount to mitigating legal and reputational risks. Regulatory hurdles, delays in approvals, and compliance gaps may impede the merger process and erode stakeholder trust and confidence.
- **Customer Experience and Service Quality**: Mergers can disrupt customer relationships, service delivery, and overall customer experience if not managed effectively. Inconsistencies in product offerings, service standards, and communication channels may lead to confusion, frustration, and loss of trust among customers. Maintaining a focus on customer-centricity, seamless transition, and proactive communication is essential to preserving customer loyalty and satisfaction throughout the merger process.

The recent merging of public sector banks in India represents a strategic response to address systemic challenges and capitalize on emerging opportunities in the banking sector. While the decision to merge banks may initially seem disruptive, it is grounded in a compelling rationale aimed at fostering financial stability, enhancing operational efficiency, and driving sustainable growth. Let's delve into the justification for the recent merging of public sector banks:

- **Addressing Structural Weaknesses**: India's banking sector has long grappled with structural weaknesses, including fragmented operations, overbanking, and capital constraints among public sector banks. Merging banks allows for the consolidation of resources, rationalization of branches, and reduction of overhead costs, thereby strengthening the overall resilience and viability of the banking system.
- **Improving Capital Adequacy and Asset Quality**: Many public sector banks in India have faced challenges related to capital adequacy and asset

quality, characterized by high levels of non-performing assets (NPAs) and stressed balance sheets. Merging banks enables the pooling of capital reserves and risk-sharing mechanisms, facilitating the resolution of distressed assets and bolstering capital adequacy ratios, which are crucial for maintaining financial stability and investor confidence.

- **Unlocking Synergies and Cost Efficiencies**: Consolidating public sector banks creates opportunities to unlock synergies, optimize resources, and drive cost efficiencies through economies of scale. By streamlining operations, eliminating duplication, and leveraging shared infrastructure and technology platforms, merged entities can reduce administrative expenses and improve profitability, ultimately benefiting shareholders and taxpayers.
- **Enhancing Competitiveness and Market Presence**: In an increasingly competitive banking landscape, scale and market presence are essential for public sector banks to remain relevant and competitive. Merging banks allows for the creation of larger, more robust institutions with broader geographic reach, diversified revenue streams, and enhanced product offerings. This strengthens their ability to compete with private and foreign banks, drive innovation, and capture market share in key segments.
- **Promoting Financial Inclusion and Socio-Economic Development**: Public sector banks play a vital role in promoting financial inclusion and supporting socio-economic development initiatives, particularly in underserved and marginalized communities. Merging banks enables greater synergies in extending credit, expanding banking outreach, and delivering innovative financial products and services to unbanked and under banked segments, thereby fostering inclusive growth and reducing disparities.
- **Facilitating Regulatory Compliance and Risk Management**: Merging public sector banks streamlines regulatory compliance, governance frameworks, and risk management practices, aligning them with global best practices and regulatory standards. This enhances transparency, accountability, and regulatory oversight, reducing systemic risks and vulnerabilities in the banking sector while safeguarding depositor interests and maintaining financial stability.

To wrap up, the journey through India's banking landscape reveals a rich tapestry of resilience, transformation, and progress. From the early days of independence to the present era of digital innovation and economic reforms, India's public sector banks have navigated myriad challenges and opportunities. The recent wave of mergers exemplifies a strategic effort to fortify the banking sector, enhance efficiency, and drive inclusive growth. As these institutions continue to evolve, they remain pivotal in supporting the nation's socio-economic development, fostering financial inclusion, and maintaining stability. The dynamic interplay of tradition and innovation within India's banking landscape ensures a promising future, marked by continued adaptation and unwavering commitment to serving the diverse needs of the population.

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Mental Health : Is it Ok not to be Ok in a Financial Job?

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"All stress, anxiety, depression, is caused when we ignore who we are and start living to please others."

In the fast-paced and high-pressure finance world, mental burnout has become an important issue affecting professionals at all levels, whether bankers, chartered, or cost accountants. The relentless demands, long hours, and constant workload affect mental well-being. However, despite the widespread prevalence of burnout, finance people cultivate a stigma around acknowledging and addressing mental health struggles in their profession.

BFSI services are a country's lifeline and can not afford such self-aversion from its members. The economy's value chain and GDP growth depend on banking and financial services. In the BFSI profession, where competitiveness and performance are highly valued, individuals often push themselves beyond their limits, leading to burnout.

Mental health includes emotional, psychological, and social well-being. **Good mental health positively impacts relationships with colleagues, superiors, and clients**. It also fosters effective communication, teamwork, and conflict resolution, creating a positive work environment. Mental health affects how we think, feel, and act. It also helps determine how we handle stress, relate to others, and make healthy choices. Mental health is essential at every stage of life, from childhood and adolescence through adulthood. It is also a necessary qualification for banking.

With India targeting a top space in the world economy, the time is ripe to delve into the significance of recognising mental burnout and normalising conversations among finance experts who are the fulcrum of India's economic miracle.

Mental burnout is more than just feeling tired or stressed; it's a state of emotional, physical, and mental exhaustion caused by prolonged stress or excessive workload. Symptoms may include fatigue, irritability, lack of motivation, and difficulty concentrating, significantly impacting job performance and personal well-being.

Many finance experts fear that admitting to struggling with mental health could be perceived as a sign of weakness or incompetence, potentially jeopardising their career prospects. However, perpetuating this stigma exacerbates the problem by discouraging individuals from seeking the help and support they need.

Frequent conversations around mental health are crucial in creating a supportive work environment where individuals feel comfortable seeking assistance when needed. Employers can be pivotal in implementing employee assistance programs, mental health awareness training, and destigmatising policies.

Fostering a culture of open communication and empathy encourages colleagues to support one another through challenging times.

Acknowledging vulnerability can be seen as a radical act in banking that celebrates perfectionism and resilience. **However, embracing the notion that it's OK not to be OK is essential for promoting mental well-being and preventing burnout**.

Recognising and accepting one's limitations, seeking support when needed, and prioritising self-care are indicators of strength and resilience, not signs of weakness.

Mental burnout in banking is a complex issue requiring effective collective action. **Prioritising mental well-being benefits employees and banks, fostering greater productivity, creativity, and overall success**.

Avoiding burnout in the fast-paced banking profession environment requires a combination of self-awareness,

effective time management, and strategies for maintaining work-life balance.

Here are some tips to help you prevent burnout:

Set Boundaries: Establish clear boundaries between work and personal life. Try to keep work from creeping into your time by setting specific work hours and sticking to them as much as possible.

Manage Workload: Learn to prioritise tasks and manage your workload effectively. Delegate tasks when appropriate, and don't hesitate to ask for help if needed. Break down larger projects into smaller, manageable tasks to avoid feeling overwhelmed.

Take Regular Breaks: Schedule short breaks throughout your workday to rest and recharge. Even a five-minute break can help reduce stress and improve focus. Stretch, take a walk, or engage in activities that support relaxation.

Practice Stress Management Techniques: Find healthy ways to manage stress, such as deep breathing exercises, meditation, or yoga, and experiment with different techniques to see what works best.

Maintain a Healthy Lifestyle: Prioritize physical health by eating a balanced diet, exercising regularly, and getting enough sleep each night. Physical health plays a significant role in managing stress and preventing burnout.

Set Realistic Expectations:

1. Be realistic about what is achievable within a given timeframe.
2. Avoid overcommitting or taking on too many responsibilities at once.
3. Learn to say no when necessary and communicate your limitations to colleagues and supervisors.

Seek Support: Build a strong network of friends and family members who understand your job's demands and can offer encouragement and advice when needed. Feel free to ask for help when overwhelmed.

Regularly Evaluate Work-Life Balance: Periodically assess your work-life balance and adjust as needed. Be mindful of any signs of burnout, such as constant exhaustion, irritability, or disengagement from work.

By prioritising self-well-being, CMAs, CAs, and finance people, including bankers, can reduce the risk of burnout, contribute to nation-building and thrive in their careers.

Rightly said, **"Mental health is not a destination, but a process. It's about how you drive, not where you're going."**

Credit Line on 'UPI"

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The financial innovation known as "Pre-sanctioned Credit Line at Banks through UPI" aims to transform the lending sector significantly. This unique offering enables both individuals and businesses to access pre-sanctioned credit lines provided by banks, facilitating the availability of small retail loans on a large scale.

By utilizing cutting-edge technologies like data analytics and artificial intelligence, banks can pinpoint credit line opportunities for customers and merchants engaged in substantial UPI-based digital transactions, thus fostering economic growth and promoting financial inclusion.

Given the constant connectivity and real-time nature of UPI usage by customers, banks can initiate credit lines from a modest amount and gradually increase them based on consumer behaviour and repayment tendencies.

This shall provide a seamless, UPI enabled credit lifecycle experience for the customer. Customers shall benefit from the ease and the increased opportunity to use their credit lines. Merchants shall benefit from the increase in consumption by being part of the credit ecosystem with acceptance of credit lines using asset lite QR and other payment acceptance methods. Credit line can now be linked to UPI ID, thus directly enabling safe and secure payment transactions.

To enable, linking of credit line on UPI, the ecosystem shall enhance their tech platforms. While the permitted lenders, will enable the linking of existing / standard credit line products and also innovate new credit line products, the acquirers will enable acceptance of linked credit line at merchant's enc.

Operation of Pre-Sanctioned Credit Lines at Banks through the UPI:

Unified Payments Interface (UPI) is a robust payments platform supporting an array of features. Presently it handles 75% of the retail digital payments volume in India. The UPI system has been leveraged to develop products and features aligned to India's payments digitisation goals. Recently, RuPay credit cards were permitted to be linked to UPI.

At present, UPI transactions are enabled between deposit accounts at banks, sometimes intermediated by pre-paid instruments including wallets. It is now proposed to expand the scope of UPI by enabling transfer to / from pre-sanctioned credit lines at banks, in addition to deposit accounts. In other words, UPI network will facilitate payments financed by credit from banks. This can reduce the cost of such offerings and help in development of unique products for Indian markets.

Discover the capabilities of "Credit Line on UPI" through the following prominent characteristics:

⇒ **Seamless Integration**: Identify credit line accounts from the issuing bank using your registered mobile number and link them within any UPI application effortlessly.

⇒ **Robust Verification**: Validate transactions with a dedicated UPI PIN for Credit Line on UPI, bolstering security measures and deterring unauthorized access.

⇒ **Comprehensive Credit Line Information**: Obtain detailed insights into credit line status, utilized credit line amount, and existing EMI particulars directly through the UPI application.

⇒ **Diverse Transaction Options**: Conduct transactions solely with merchants' QR Codes or e-commerce merchants utilizing Credit Line on UPI.

⇒ **Transaction Boundaries**: Adherence to standard UPI transaction limits is mandatory.

⇒ **Efficient Repayment Mechanisms**: Effectively understand and utilize repayment methods, including inbound payments to a specific UPI ID for credit line settlement, and make use of e-mandates (AutoPay) wherever feasible.

⇒ **Dispute Resolution**: Conveniently address disputes via the ODR (UPIHelp) functionality accessible on UPI applications, ensuring a transparent and user-friendly process.

Recommended Actions:

- **PIN Protection**: Enhance security by configuring a unique UPI PIN for your transactions involving "Credit Line on UPI."
- **Merchant Transactions**: Limit transactions to merchants' QR Codes or e-commerce platforms when using Credit Line on UPI.
- **Autopay Activation**: Streamline payment processes by enrolling in UPI Autopay for prompt Credit Line bill settlements.
- **Mobile Number Maintenance**: Ensure your mobile number is up to date with the issuing bank for seamless Credit Line linking on UPI.
- **Balance Verification**: Regularly review your available balance and outstanding dues on the UPI application before initiating transactions with merchants.

Actions to Avoid:

✓ **PIN Disclosure**: Prevent unauthorized access to your Credit Line by refraining from sharing your UPI PIN with others.

✓ **Uniform PIN Usage**: Enhance security by avoiding the use of the same UPI PIN for both "Credit Line on UPI" and your Savings Bank account.

✓ **OTP Sharing**: Safeguard the confidentiality of your account by refraining from sharing the OTP received during the registration process.

✓ **Neglecting Credit Line Regulations**: Ensure compliance with the credit line usage guidelines specified by the issuing bank to maintain a smooth financial experience.

✓ **Credit Limit Violation**: Adhere to the credit limit set by your issuing bank to prevent exceeding your Credit Line on UPI.

- ✓ **Restricted Transactions**: Avoid conducting transactions in restricted categories as outlined by the issuing bank/RBI when utilizing "Credit Line on UPI."
- ✓ **Delayed Credit Line Repayment**: Adhere to the repayment schedule and terms to prevent any adverse impacts on your credit score and ensure a smooth credit relationship.

Banks Live:

- Axis Bank.
- HDFC Bank.
- ICICI Bank.
- Punjab National Bank.
- State Bank of India.

Apps Live:

- BHIM.
- Google Pay.
- Paytm.
- PAYZAPP.

To Conclude, Expanding the scope of UPI by enabling transfer to / from Pre-sanctioned Credit Lines at Banks. Currently, Savings Account, Overdraft Account, Prepaid Wallets and Credit Cards can be linked to UPI. As announced by Reserve Bank of India, the scope of UPI is now being expanded by inclusion of Credit Lines as a funding account. Under this facility, payments through a Pre-sanctioned Credit line issued by a Scheduled Commercial Bank to Individuals, with prior consent of the Individual Customer, are enabled for Transactions using the UPI System.

Banks may, as per their Board Approved Policy, stipulate Terms and Conditions of use of such Credit Lines. The terms may include, among other items, Credit Limit, Period of Credit, Rate of Interest, etc. This directive is issued by Reserve Bank of India under Section 10(2) read with Section 18 of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

Green Deposits-RBI Framework

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Climate change is clearly one of the most pertinent regulatory themes in recent times, as the move to sustainable business practices and energy efficient technologies need massive funding. The availability of finance for move to sustainability has an important role to play in mitigating climate change.

To this effect, RBI also conducted a survey in January 2022 to assess the status of climate risk and sustainable finance in leading scheduled commercial banks, and observed a need for concerted effort and further action in this regard. Following the same, RBI conducted a discussion, and released a press release indicating its intention to release a framework for acceptance of green deposits in India. On 11th April, 2023, RBI released the Framework for Acceptance of Green Deposits ("Framework") for banks and deposit-taking NBFCs/HFCs, to be applicable from 1st June, 2023.

Features of Green Deposit:

⇒ In general terms, a green deposit is a fixed-term deposit for those who want to invest in environmentally friendly projects.

⇒ Just like a regular Fixed Deposit scheme, the green deposit pays interest to its investors and has a fixed term.

⇒ The proceeds that a bank gets from deposit holders get earmarked for allocation to green finance.

⇒ A green fixed deposit, also known as an environmentally friendly fixed deposit, is a financial instrument that encourages sustainable development by channelling funds towards projects focused on renewable energy, clean technology, or other environmentally beneficial initiatives.

⇒ The green activities/ projects financed under the framework can be classified under priority sector if they meet the requirements laid down in priority sector lending (PSL) guidelines of RBI.

⇒ Banks are allowed to offer overdraft facility to customers against Green Deposits.

⇒ The current framework permits green deposits to be denominated in Indian Rupees only.

⇒ The deposits raised under the framework are covered by Deposit Insurance and Credit Guarantee Corporation (DICGC) in accordance with the Deposit Insurance and Credit Guarantee Corporation Act, 1961 and the regulations framed there under, as amended from time to time.

⇒ On maturity, the green deposits would be renewed or withdrawn at the option of the depositor.

Use of Proceeds:

The allocation of proceeds raised from green deposits shall be based on the official Indian green taxonomy. Pending finalization of the taxonomy, as an interim measure, REs shall be required to allocate the proceeds raised through green deposits towards the following list[5] of green activities/projects which encourage energy efficiency in resource utilisation, reduce carbon emissions and greenhouse gases, promote climate resilience and/or adaptation and value and improve natural ecosystems and biodiversity.

Sector	Description
Renewable Energy	≈ Solar/wind/biomass/hydropower energy projects that integrate energy generation and storage. ≈ Incentivizing adoption of renewable energy.
Energy Efficiency	≈ Design and construction of energy-efficient and energy-saving systems and installations in buildings and properties. ≈ Supporting lighting improvements (e.g. replacement with LEDs). ≈ Supporting construction of new low-carbon buildings as well as energy-efficiency retrofits to existing buildings. ≈ Projects to reduce electricity grid losses.
Clean Transportation	≈ Projects promoting electrification of transportation. ≈ Adoption of clean fuels like electric vehicles including building charging infrastructure.
Climate Change Adaptation	≈ Projects aimed at making infrastructure more resilient to impacts of climate change.
Sustainable Water and Waste Management	≈ Promoting water efficient irrigation systems. ≈ Installation/upgradation of wastewater infrastructure including transport, treatment and disposal systems. ≈ Water resources conservation. ≈ Flood defence systems.
Pollution Prevention and Control	≈ Projects targeting reduction of air emissions, greenhouse gas control, soil remediation, waste management, waste prevention, waste recycling, waste reduction and energy/emission-efficient waste-to-energy.
Green Buildings	≈ Projects related to buildings that meet regional, national or internationally recognized standards or certifications for environmental performance.
Sustainable Management of Living Natural Resources and Land Use	≈ Environmentally sustainable management of agriculture, animal husbandry, fishery and aquaculture. ≈ Sustainable forestry management including afforestation/reforestation. ≈ Support to certified organic farming. ≈ Research on living resources and biodiversity protection.
Terrestrial and Aquatic Biodiversity Conservation	≈ Projects relating to coastal and marine environments. ≈ Projects related to biodiversity preservation, including conservation of endangered species, habitats and ecosystems.

Exclusions:

Projects involving new or existing extraction, production and distribution of fossil fuels, including improvements and upgrades; or where the core energy source is fossil-fuel based.

- Nuclear power generation.
- Direct waste incineration.
- Alcohol, weapons, tobacco, gaming, or palm oil industries.
- Renewable energy projects generating energy from biomass using feedstock originating from protected areas.
- Landfill projects.
- Hydropower plants larger than 25 MW.

Third-Party Verification/Assurance and Impact Assessment:

The allocation of funds raised through green deposits by REs during a financial year shall be subject to an Independent Third-Party Verification/Assurance which shall be done on an annual basis. The third-party assessment would not absolve the RE of its responsibility regarding the end-use of funds, for which the laid down procedures of internal checks and balances would have to be followed as in the case of other loans. The related terms and conditions to be additionally fulfilled by the borrowers to meet the requirements of the framework mentioned above would be the additional check points while ascertaining the end-use of funds.

The **Third-Party Verification/Assurance Report** shall, at the minimum, cover the following aspects:

- Use of the proceeds to be in accordance with the eligible green activities/projects indicated RBI. The REs shall monitor the end-use of funds allocated against the deposits raised.
- Policies and Internal Controls including, inter-alia, project evaluation and selection, management of proceeds, and validation of the sustainability information provided by the borrower to the REs and Reporting and Disclosures.
- REs, with the assistance of external firms, shall annually assess the impact associated with the funds lent for or invested in green finance activities/projects through an Impact Assessment Report.

An illustrative list of impact indicators is given below. In case REs are unable to quantify the impact of their lending/investment, they shall disclose, at the minimum, the reasons, the difficulties encountered, and the time-bound future plans to address the same.

Considering the fact that impact assessment is an evolving area, it shall be undertaken on a voluntary basis for the financial year 2023-24. REs shall have to mandatorily make an impact assessment from the financial year 2024-25 onwards.

REs shall place the report of the Third-Party Verification/ Assurance and Impact Assessment Report on their website.

Portfolio-level Information on the Use of Funds raised from Green Deposits

			(Amount in ₹ Crore)
Particulars	**Current Financial Year**	**Previous Financial Year**	**Cumulative***
Total green deposits raised (A)			
Use of green deposit funds**			
1. Renewable Energy			
2. Energy Efficiency			
3. Clean Transportation			
4. Climate Change Adaptation			
5. Sustainable Water and Waste Management			
6. Pollution Prevention and Control			
7. Green Buildings			
8. Sustainable Management of Living Natural Resources and Land Use			
9. Terrestrial and Aquatic Biodiversity Conservation			
Total Green Deposit Funds Allocated (B = Sum of 1 to 9)			
Amount of Green Deposit Funds Not Allocated (C = A – B)			
Details of the Temporary Allocation of Green Deposit proceeds pending their Allocation to the eligible Green Activities / Projects.			

* This shall contain the cumulative amount since the RE started offering green deposits. For example, if a bank has commenced raising green deposits from June 1, 2023, then the annual financial statement for the period ending March 31, 2025 would contain particulars of deposits raised and allocated from June 1, 2023 till March 31, 2025.

** Under each category, REs may provide sub-categories based on the funds allocated to each sub-sector. For example, REs may provide sub-categories like solar energy, wind energy, etc. under "Renewable Energy".

To Conclude, with a sharp increase seen in the integration of ESG objectives with fundraising and fund utilization activities, Green Deposits are likely to become an important source of mobilizing funds. While entities have been already issuing green deposits, the introduction of a comprehensive framework in this regard is likely to ensure the use of proceeds towards meeting the climate change objectives and avoidance of greenwashing concerns. It is expected that the RBI does not take an impractical stand by ruling out commingling of the funds, as that may potentially take away the feasibility of green deposits for banks and deposit-taking entities.

Reference:

Reserve Bank of India Directives.

Bima Sugam – The Game Changer of Insurance Industry

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As per the Insurance Regulatory and Development Authority of India (IRDAI), India's insurance industry is projected to reach USD 222 billion by 2026 and become the sixth-largest insurance market globally, surpassing countries like Germany, Canada, Italy, and South Korea. It seems possible considering the thrust from IRDAI for more and more penetration and timely reforms such as e-insurance and the latest one Bima Sugam.

IRDAI in its recently released press note dt:22nd March 2024: Regulatory Revamp: A Paradigm Shift: The regulator said: "The IRDAI (Bima Sugam- Insurance Electronic Market place) Regulations, 2024 aims to establish digital Public Infrastructure named Bima Sugam.

What is Bima Sugam?

Simply to put it is an online platform which brings together various insurance products of different insurance companies under one roof. Customer can go through, compare and purchase any of the required the insurance products like life insurance, Health Insurance, Motor Vehicle Insurance, or any other type of insurance. Not only this but also can renew or port the policy on this platform. Furthermore, the claim settlement or grievance redressal can also be done on this platform.

Insurance companies (both general and life insurers) will be major shareholders in the platform, which will offer facilities to customers via an 'e-insurance account' (E-IA),"

In short Bima Sugam will be a unified platform which will be integrated with various government databases, insurance companies, intermediaries & insurance repositories.

Benefits of Bima Sugam Portal

It will facilitate insurance companies to access the validated and authentic data from various sources on a real-time basis. The platform will interface for the intermediaries and agents to sell policies and provide services to policyholders. The most important benefit is it will reduce paperwork, the paperwork involved in buying a policy will also come down. Settlement of claims and renewal of policies will also become faster as paperwork is reduced drastically, making it easier for the customers, intermediaries and insurance companies. Bima Sugam will improve accessibility, availability and affordability of insurance products and services with speed and transparency. It will help in fraud detection which in turn will protect from likely losses. Bima Sugam will help to increase insurance penetration in the country and there by business and profitability of insurance companies.

Benefits to the customers:

Bima Sugam will bring unparalleled convenience to the customers. It will offer one stop solutions to all your insurance needs that to at affordable costs. Since the Bima Sugam platform will streamline the entire process, policy buying, renewal and claim settlement will be done swiftly and transparently.

Some of the major benefits to the customers will be as under

- Easy access with mobile and desktop for insurance products and services.
- No need of in-person visits, which save saves time and cost
- Smooth, speedy and transparent transaction process.

- can compare products and prices of different insurance companies.
- Enables product customisation to individual needs.

In short, we can say, when we look at Indian insurance market covering entire population requires a lot of efforts, use of technology, major initiative by regulator, the intermediaries and distributors. Reforms like e-insurance, Bima Sugam, the use of innovative products, sustainable pricing and state of art claims management will be driving the industry to a very productive ecosystem of customer friendly environment

IRDAI Bima Sugam will a big game changer in the both life and general Insurance sector like UPI in banking sector. It is really a revolutionary step by IRDAI. While the Launching of Bima Sugam may disrupt existing business models in insurance sector however any innovation brings in new opportunities and does not replace old model in totality, like in era of Amezon, Flipkart like digital business platforms traditional retailer is also doing business with some innovative ideas. Though it will take some time to crystalize the structure and functions of Bima Sugam since detailed discussions are going on between IRDAI and stake holders, but one thing is sure that Bima Sugam will be game changer for Insurance Sector.

Fintech Companies in Strengthening the Banking and Online Payments

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The field of Fintech, an abbreviation for financial technology, represents a swiftly expanding sector that involves the utilization of technology in the provision of financial services. Recent years have witnessed Fintech being accountable for various advancements within the financial industry, ranging from mobile transactions and peer-to-peer lending to automated financial advisors and blockchain technology.

The Fintech sector remains relatively nascent, yet it has already exerted a significant influence on the methods of banking, investing, and conducting transactions. Furthermore, with the surge of electronic banking and mobile trade in India, Fintech is positioned to assume an even more substantial role in the Nation's Digital Economic Landscape.

There exist several rationales behind the pivotal role occupied by Fintech within India's digital economy. Primarily, Fintech affords Indians access to financial services that might otherwise be beyond their reach. This is particularly relevant for rural and underbanked communities that frequently lack access to conventional banking services and products.

Moreover, Fintech contributes to the reduction in the cost of financial services. By simplifying and rendering more cost-effective the processes of money transfer, payments, and loan procurement, Fintech enterprises facilitate enhanced accessibility to financial services for individuals across the socioeconomic spectrum.

Fintech is instrumental in propelling India's noteworthy growth as a prominent global economic force. Given its substantial population and thriving economy, India represents an appealing market for numerous international enterprises.

Current Scenario:

The digital economy stands as the contemporary paradigm for economic advancement and progress, with India being no exception to this trend. The nation aspires to transition into a digitally-driven economy on a large scale, with Fintech playing a pivotal role in this metamorphosis. Fintech, a portmanteau of financial technology, pertains to the utilization of technology to furnish financial services. In India, Fintech firms are devising innovative resolutions that are instrumental in actualizing the country's digital economy.

Payments represent a domain where Fintech is effecting a substantial influence. India harbors a sizable unbanked populace, with cash continuing to dominate as the primary mode of payment. This scenario is evolving with the emergence of Fintech enterprises offering digital payment alternatives. Not only are these solutions convenient and secure, but they are also fostering financial inclusivity.

Lending constitutes another sphere where Fintech is assuming a critical role. Numerous small-scale enterprises in India encounter challenges in accessing traditional bank loans. Fintech firms are introducing inventive loan products tailored to the specific requirements of these businesses. These products are not only fostering business growth but also generating employment opportunities.

Furthermore, investment management is witnessing the impact of Fintech. In India, the majority of individuals still invest in tangible assets like gold and real estate. However, with the assistance of Fintech, individuals can now diversify their investments into financial assets such as stocks, mutual funds, and exchange-traded funds (ETFs).

Self-Regulatory Organization (SRO) for FinTech Sector:

Technological advancements are restructuring the financial services sector, where FinTechs are emerging as both disruptors and enablers. These FinTechs consist of various entities with different characteristics such as size, activities, and domains, all of which are constantly changing and evolving. They play a crucial role in reshaping financial services by providing efficiency, accessibility, and cost reduction. Under the framework for membership in an SRO-FT, FinTechs can be defined as entities offering technological solutions for delivering financial products/services to businesses and consumers, including regulatory compliance in collaboration with traditional financial institutions. This definition serves as a general guideline for determining eligibility for membership.

Despite the innovative contributions of FinTech, this sector raises concerns related to:

- ✓ Customer Protection.
- ✓ Data Privacy.
- ✓ Cyber Security.
- ✓ Governance, and
- ✓ Financial System Integrity.

Therefore, regulating this dynamic sector requires a balanced, nuanced, and forward-thinking approach. The framework for FinTechs should be creative, adaptable, flexible, and proportionate to the perceived risks, aiming to maximize innovation while minimizing risks to the financial system. Oversight should be based on activities, risks, scale, and gradually implemented.

Encouraging self-regulation within the FinTech sector could help strike a delicate balance. Through self-governance, FinTechs can establish and follow industry standards and best practices, showcasing a commitment to responsible behaviour and innovation even without formal regulations. Collaboration within the sector can address challenges, promote innovation, and uphold ethical business practices. Self-regulation allows adaptability to rapid technological changes and market dynamics, aligning growth with self-imposed standards and peer expectations. It can instil discipline, enhance internal governance, and support the orderly development of the FinTech sector.

Effective self-regulation requires a structured approach based on consensus and co-operation among entities. This framework outlines the establishment of a Self-Regulatory Organization (SRO) for the FinTech Sector. An SRO is an industry-led body responsible for setting and enforcing regulatory standards, promoting ethical

behaviour, ensuring market integrity, resolving disputes, and enhancing transparency and accountability among its members. The framework details the characteristics of an SRO for the FinTech sector (SRO-FT), including functions, governance standards, eligibility criteria, and expectations for recognition as an SRO-FT.

FinTech SRO Characteristics:

The operation of the SRO-FT should be conducted in an objective manner, demonstrating credibility and responsibility while being overseen by the Reserve Bank of India (RBI). It should aim towards the promotion of a healthy and sustainable growth within the FinTech sector and, when required, establish a systematic approach towards regulatory and supervisory compliance. The SRO-FT should possess certain characteristics:

(a) Accurate Representation of the FinTech Sector: The effectiveness of the SRO-FT should stem from its membership base, ensuring that it genuinely represents the FinTech sector, encompassing regulated entities by RBI (e.g., NBFC-Account Aggregators, NBFC-Peer to Peer Lending Platforms, etc.) excluding banks. Due to the varied nature of FinTech ventures that often operate across multiple domains, such as entities offering both loan and insurance products, and RegTech providers developing solutions for a variety of financial institutions, including lending and insurance, a comprehensive membership framework should be established.

This framework should cover a wide array of industry participants, granting the SRO-FT the authority and trust to establish fundamental standards and codes of conduct, as well as effectively oversee and enforce them. This inclusive structure should encourage diversity and enable the SRO-FT to leverage the collective knowledge and experience of its members, leading to the formulation of practical, adaptive, and widely accepted standards within the FinTech community. The industry should consider the SRO-FT as the primary body for setting standards, defining codes of conduct, and ensuring voluntary adherence to the established framework by its members. Given the dynamic nature of the sector, it is plausible for FinTechs to hold membership in more than one SRO. Moreover, FinTech entities are advised to engage with at least one SRO.

(b) Focus on Development: The SRO-FT should be oriented towards development, actively contributing to the advancement and progression of the industry. This entails establishing minimum criteria for membership eligibility, providing specialized knowledge and expertise, offering guidance, and supporting capacity-building through training initiatives. By promoting continuous learning and skill enhancement, the SRO-FT should contribute to a stronger, more competent, and mature FinTech environment. Furthermore, the expertise of the SRO-FT should play a pivotal role in bridging skill gaps, offering essential support to early-stage entities, guiding them, and keeping them informed about the dynamic landscape of financial technology and regulatory requirements, while also aiding in the formulation of forward-thinking policies.

(c) Autonomy and Integrity: In order to uphold its credibility, the SRO-FT must function independently, devoid of influence from any individual member or group of members. This independence is crucial for ensuring sound decision-making processes and preventing the organization from being unduly influenced by a select few. The SRO-FT should uphold impartiality, steer clear of conflicts of interest, and maintain unbiased supervision over its members. Autonomy within the SRO-FT will bolster its reputation as a neutral and trustworthy entity, which is essential for earning the confidence and trust of both industry stakeholders and regulators.

(d) The SRO-FT should be perceived by members: As a legitimate entity for resolving disputes, necessitating a transparent and equitable mechanism for addressing conflicts among members to foster trust in the FinTech industry. Through effective management of member conflicts and disputes, the SRO-FT can enhance the stability and harmony of the FinTech ecosystem.

(e) **The SRO-FT should possess the ability to encourage its members**: To adhere to regulatory priorities by facilitating communication between industry stakeholders and the RBI, advocating for necessary reforms, and promoting a culture of regulatory compliance. While the codes, standards, and rules for adoption by members should not replace the prescribed regulatory framework for FinTechs, the SRO-FT, in fulfilling its compliance obligations, should be empowered to investigate and take disciplinary actions against members for non-compliance. By actively engaging in regulatory discussions, the SRO-FT can assist in shaping a regulatory landscape conducive to innovation and consumer protection.

(f) **Serving as a repository of Information**: The SRO-FT should collect, analyse, and disseminate relevant data on its members' activities, functioning as a valuable resource for industry research, trend analysis, and policy formulation. By consolidating and sharing knowledge, the SRO-FT can contribute to the holistic growth and resilience of the FinTech sector. It is recommended that the SRO-FT establish a repository containing comprehensive information on FinTech companies within its membership.

Conclusion:

In recent years, the fintech sector in the Indian economy has experienced rapid growth, emerging as one of the most dynamic industries. India has become a hub for leading fintech companies and startups, significantly contributing to the advancement of the country's digital economy.

Looking ahead, there exist several emerging trends that are anticipated to influence the trajectory of fintech in India. Primarily, the government's emphasis on transitioning towards a cashless society is expected to drive the demand for fintech products and services. Additionally, the expanding accessibility of smartphones and internet connectivity among the Indian populace presents a vast untapped market for fintech enterprises. Furthermore, the rising middle class in India will increasingly require tailored financial solutions to meet their evolving needs.

Evidently, the future of fintech in India appears promising, characterized by substantial potential and prospects for rapid expansion in the forthcoming years.

In conclude, fintech has played a pivotal role in fostering India's digital economy by enhancing the efficiency of financial systems and services for both individuals and businesses. Fintech stands on the brink of transforming the banking and finance sector through its innovative technologies, providing enhanced access to financial services for underserved populations. With sustained governmental backing, India's fintech industry is poised for sustained growth, contributing to the nation's overall economic advancement.

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(a) Reserve Bank of India Guidelines.

India Equity View : Optimistic Outlook Amid Reforms Continuity and Economic Drivers

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India's equity market is set to flourish, driven by a confluence of favorable factors. These include the stability and continuity of economic reforms under a coalition government, strong corporate earnings, better monsoon forecasts due to La Niña, a revived capital expenditure (capex) cycle, substantial infrastructure thrust, a robust government financial position, and strategic public sector undertakings (PSUs) divestments. Additionally, investment opportunities abound across various sectors, including manufacturing and import substitution, agriculture, affordable housing, financials, consumption, and pharmaceuticals.

1. **Political Stability and Continuity of Reforms**

   India's coalition government has maintained a steady course on economic reforms, providing a stable political environment that bolsters investor confidence. The continuity of reforms is essential for fostering a conducive business environment. Key reforms in taxation and the ease of doing business are expected to persist, enhancing the investment landscape. The government's focus on digitalization, transparency, and reducing bureaucratic hurdles continues to attract foreign and domestic investments, promoting sustainable economic growth.

2. **Robust Earnings Support**

   Corporate earnings in India have demonstrated resilience and growth, providing a robust foundation for the equity market. Companies across various sectors are optimizing operations and capitalizing on emerging opportunities. With domestic demand improving and global economic recovery underway, corporate earnings are expected to remain strong. Sectors such as auto, financials, cement, agriculture, pharmaceuticals, real-estate, and consumer goods are particularly well-positioned to deliver robust earnings growth, driven by increasing demand, and favourable government policies.

3. **Positive Monsoon Forecasts and Agricultural Impact**

   The expectation of a better monsoon season, influenced by the La Niña phenomenon, is a boon for India's agriculture sector. Adequate rainfall ensures good crop yields, which in turn boosts rural incomes and stimulates demand for goods and services. This positive impact extends to various sectors, including consumer goods, automotive, and retail. A strong agricultural performance also helps control food inflation, contributing to overall economic stability.

4. **Revival of the Capex Cycle**

   The capex cycle in India is witnessing a revival, driven by increased investments in key sectors such as infrastructure, manufacturing, and energy. Both public and private sectors are investing in expanding capacity, modernizing facilities, and improving efficiency. The government's focus on infrastructure development through initiatives like the National Infrastructure Pipeline (NIP) is a significant driver of this capex revival. This renewed investment cycle is expected to create jobs, spur economic activity, and provide a long-term growth trajectory for the economy.

5. **Infrastructure Thrust**

   The Indian government has prioritized infrastructure development as a means to spur economic growth. Major projects in transportation (roads, railways, and airports), energy (renewable and conventional), and

urban development are underway. This infrastructure thrust not only creates jobs and stimulates demand in related industries such as construction and materials but also enhances productivity and connectivity. Improved infrastructure is crucial for reducing logistics costs, increasing efficiency, and attracting further investments.

6. Strong Government Financial Position

The government's financial position is robust, supported by strong revenue collections and prudent financial management. The Reserve Bank of India's (RBI) substantial dividend transfers to the government, along with consistently high goods and services tax (GST) collections, have strengthened the fiscal position. These resources enable the government to fund its developmental projects without significantly increasing borrowing, thus maintaining macroeconomic stability. The government's fiscal prudence and efficient tax administration further bolster investor confidence.

7. Potential PSU Divestments – A Golden Opportunity

The government's ongoing strategy of divesting stakes in PSUs presents significant investment opportunities. This buoyant market environment presents a golden opportunity for the Indian government to accelerate its divestment program of PSUs. In recent years, the government has fallen short of its divestment targets. However, the combined market capitalization of the 84 PSUs has surged by an impressive 80% since early 2023, reaching a staggering about Rs 70 trillion. In 36 of these firms, share prices have doubled since 2022, yet the government's offers for sale have remained consistent at Rs 0.1 lakh annually. This presents a unique window to capture premium valuations for these companies

8. Sectoral Investment Opportunities

Several sectors in India present compelling investment opportunities, driven by structural reforms, policy support, and favourable market dynamics.

a. Manufacturing and Import Substitution

India's push for self-reliance through the 'Atmanirbhar Bharat' initiative has created significant opportunities in the manufacturing sector. The government's emphasis on import substitution, coupled with production-linked incentive (PLI) schemes, is attracting investments in electronics, pharmaceuticals, automotive components, defense and textiles. These initiatives aim to boost domestic production, reduce dependency on imports, and enhance export competitiveness. Investors can capitalize on the growth potential in sectors that align with the government's vision of a self-reliant India.

b. Agriculture

The agricultural sector is set to benefit from favourable monsoon predictions and government initiatives aimed at enhancing productivity and farmers' incomes. Investment opportunities abound in agrochemicals, farm equipment, food processing, and agritech solutions that improve supply chain efficiency and crop yields. The government's focus on agricultural reforms, such as improved irrigation facilities, better market access, and enhanced storage infrastructure, further supports the sector's growth potential.

c. Affordable Housing

Affordable housing remains a priority for the Indian government, with initiatives such as the Pradhan Mantri Awas Yojana (PMAY) aiming to provide housing for all. This sector offers significant potential for growth, driven by urbanization, demographic trends, and supportive policies. Investments in real estate developers focusing on affordable housing, construction materials, and related infrastructure are likely to yield attractive returns. The government's emphasis on housing for all not only addresses the housing deficit but also stimulates demand in related sectors, creating a multiplier effect on the economy.

d. Financials

The financial sector in India is poised for growth, supported by a robust economic recovery and increasing credit demand. Banks, non-banking financial companies (NBFCs), and insurance firms stand to benefit from improved asset quality, higher credit offtake, and digital transformation. The government's push for financial inclusion and digital banking is expected to drive growth in the sector. Moreover, the anticipated recovery in economic activities post-pandemic is likely to boost the demand for financial services, providing a positive outlook for the sector.

e. **Consumption**

India's burgeoning middle class and rising disposable incomes continue to drive consumption growth. Sectors such as consumer durables, fast-moving consumer goods (FMCG), retail, and e-commerce are poised to benefit. Companies that can cater to evolving consumer preferences and leverage digital channels are particularly well-positioned for growth. The government's focus on boosting rural incomes and creating job opportunities further supports consumption growth, providing a positive outlook for the sector.

f. **Pharmaceuticals**

The Indian pharmaceutical industry, known for its strong manufacturing capabilities and cost competitiveness, presents robust investment opportunities. The sector is witnessing growth driven by increased healthcare awareness, rising domestic demand, and expanding export markets. Innovations in biotechnology, generics, and specialty drugs offer further growth avenues, supported by government incentives and favourable regulatory changes.

9. **Conclusion**

With govt's portfolio distribution across ministries, it is now clear that policy and reforms are likely to continue. Given the earnings support, rise in retail equity culture or global flow and govt's announcements w.r.t roadmap for the first 100 days, it is a highly probable that market will sustain rally to a pre-budget euphoric peak before a prolong consolidation phase sets in.

Broadly, we remain positive given strong capex from govt. side across core sectors of the economy like infrastructure besides thrust on improving manufacturing cycle and ongoing reforms in the power & renewables sector. Besides…Rural focus like low cost housing, agriculture and provision of drinking water for all, will only gain momentum in times to come. And, govt. has the bandwidth now to fund such large capex or undertake fiscal expansion by PSU divestments, RBI dividends or higher tax collections.

On the **small and mid-cap side** of the market specifically, it is unwise to generalise all stocks into one basket as this category has vast ocean of universe of stocks spanning over a few thousand companies. So one needs to have bottom up approach to stock picking despite relative volatility or beta being higher than large caps. Yes, valuations in many cases may be ahead of earnings or offers lesser margin of safety compared to 12 months back, but still one may find opportunities in 3 out of 10 cases from a valuation perspective.

There are structural changes in defense procurement with focus on local manufacturing and huge acceleration in capex on railways or electronic manufacturing services… that can be witnessed over the next decade. So there is a long run way to growth...however, stocks in this segment of defense, railways, EMS or electronic manufacturing space… may have **largely moved ahead of time** or have given up-fronted returns….far ahead of their earnings ...so one has to **be cautious in these spaces** in the near term and elongate investment holding period now to say, beyond 3 to 5 years as the business outlook and earnings growth appears durable given huge market size but their earnings are well discounted in advance.

On the other hand, **sectors to invest currently include financials, chemicals-pharma, agriculture related sectors, cement, select infra-real estate construction sectors including engineering companies where profit margins may have bottomed or where there is visibility of better earnings growth and market has not fully discounted them due to lower expectation. Hence, these sectors would be preferred considering valuation comfort. There is hope for revival in consumer oriented sectors led by better monsoons as La Nina takes over and also based on expected rural thrust in the budget.**

As mentioned, there are pockets of overvaluation and there are spaces which can be preferred. There are always potential opportunities with sector shift strategy in the market.

Invest with a longer term perspective of 3 to 5 years for superior wealth creation in India equities.

SME Digital Loans (Instant 'Credit Approval' Using Tax and GST Returns)

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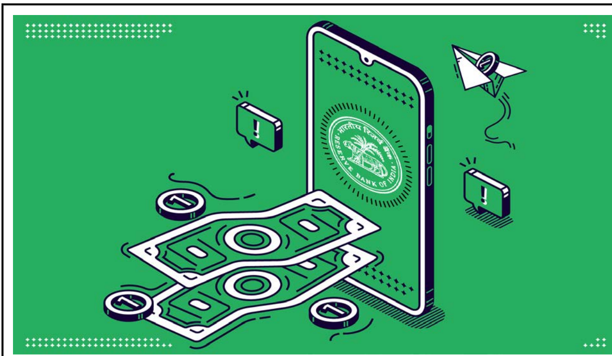
India's fintech ecosystem has witnessed substantial growth over recent years, attributed to significant demographic prospects and regulatory measures, coupled with a thriving funding landscape and increasing interest from venture capitalists.

The concept of digital lending plays a crucial role in India's fintech domain, as defined by the Reserve Bank of India as a remote, automated lending procedure primarily utilizing seamless digital technologies for activities like customer acquisition, disbursement, recovery, and related customer services. The rise in credit demand, alongside traditional institutions' hesitation to provide loans to economically disadvantaged groups, has led to the emergence of various digital lending platforms including NBFCs, fintech firms, and similar entities.

Digital lending platforms cater not only to MSMEs but also to individual customers, offering a spectrum of financial services ranging from minor personal loans for purchasing electronic appliances to buy-now-pay-later schemes, educational loans, automobile financing, and even modest housing loans. These services facilitate convenient and simplified access to credit through mobile devices, minimizing paperwork and eligibility criteria compared to traditional bank branches. The COVID-19 pandemic has further accelerated the adoption of digital lending services in India.

The digital lending sector's business expansion is evident through the success stories of companies like Lendingkart, InCred, Mobikwik, and Aye Finance. The Younger Generations, including Millennials and Gen Z, are increasingly embracing Micro Credit and Buy-Now-Pay-later Services. Despite being in its early stages in India, the Buy-Now-Pay-Later sub-segment of digital lending, known as **BNPL**, has gained global recognition for its seamless service provision at reduced interest rates and without stringent credit history requirements.



While the Digital Lending industry in India has grown rapidly, there remains a noticeable gap in access to structured credit facilities, with only a small fraction of the population benefiting from such services. Factors contributing to this disparity include lack of awareness, insufficient documentation, and historical exclusion from formal banking channels.

The inadequacy of traditional credit scoring models in assessing consumer creditworthiness has prompted new-age lenders to utilize alternative data sources such as utility bill payments and technological integrations for risk evaluation. Balancing innovation with regulatory adherence poses a significant challenge for the digital lending sector, where conventional credit methods still dominate the market. However, owing to its cost-effectiveness, scalability, and potential for high-volume transactions, digital lending is anticipated to surpass the traditional credit industry by 2030, particularly in the realm of unsecured loans.

The Digital Transformation Impact on the Banking Sector:

In a period characterized by the digital transformation revolutionizing various industries globally, the banking sector is not lagging behind. State Bank of India (SBI), the largest public sector bank in the country, has established a new standard in innovation with the introduction of an SME digital loans program. This pioneering initiative utilizes data from Tax and GST Returns to provide rapid Credit Evaluations and Loan Approvals, with the commitment to disburse loans of up to □50 lakh within a mere 45 minutes, all achieved without human involvement. This innovative program, its advantages, and its potential influence on small and medium enterprises (SMEs) in India.

The Technological Revolution in Banking:

The digital revolution has facilitated notable progress in the Banking Industry. Conventional Banking practices, often characterized by extensive paperwork and protracted approval processes, are being supplanted by digital solutions that Deliver Speed, Convenience, and Effectiveness. SBI's SME Digital Loans Program exemplifies this transition, demonstrating how Technology can streamline and hasten Banking Operations.

Comprehending SBI's SME Digital Loans Initiative:

SBI's SME digital loans program is structured to offer immediate credit to SMEs by making use of data sourced from their Tax and GST returns. How the new product functions:

(a) **Utilization of Data**: The program retrieves financial information from the SME's tax and GST returns, providing a comprehensive overview of the business's financial well-being, encompassing its revenue, expenditures, and tax compliance.

(b) **Swift Credit Evaluation**: Advanced algorithms and data analysis tools scrutinize the collected data to evaluate the SME's creditworthiness. This automated procedure guarantees an impartial and precise credit assessment.

(c) **Instantaneous Loan Approval**: Predicated on the credit evaluation, the system can authorize loans of up to ₹50 lakh within just 45 minutes. This rapid approval process eradicates the necessity for human interference, reducing the time and energy involved in loan processing.

(d) **Effortless Fund Disbursement**: Following approval, the loan sum is promptly disbursed into the SME's bank account, ensuring that enterprises promptly access the necessary funds.

The benefits of the Small and Medium Enterprise (SME) Digital Loans Programme are manifold, catering to both SMEs and the Banking Sector:

- ✓ The expeditious approval of loans within 45 minutes represents a pivotal advancement for SMEs, granting them swift acquisition of essential funds. This celerity and effectiveness are paramount for enterprises encountering pressing financial exigencies.
- ✓ Through the utilization of digital data extracted from tax and Goods and Services Tax (GST) returns, the programme diminishes the necessity for extensive documentation. This abridgment in paperwork streamlines the loan application procedure, rendering it more accessible to SMEs seeking Micro, Small, and Medium Enterprises (MSME) loans.
- ✓ The automated credit evaluation process guarantees that creditworthy SMEs secure the loans they are entitled to. This heightened credit accessibility can facilitate the growth and expansion of SMEs, whether they are soliciting MSME loans or pursuing business financing for novel ventures.

✓ The employment of data analytics ensures a clear and precise credit assessment process. This transparency cultivates trust between the bank and its SME clienteles.

✓ By eradicating human intervention in the loan endorsement process, operational expenses for the bank are curtailed, enabling the provision of competitive interest rates and improved conditions to SMEs.

The SME Digital Loans Programme harbors the potential to profoundly influence the SME domain in India. Here are several avenues through which it can effectuate change:

Facilitating Business Expansion: Prompt credit availability empowers SMEs to invest in novel initiatives, procure inventory, modernize equipment, and broaden their undertakings. This financial backing can propel business expansion and augment profitability.

Advocating Financial Inclusion: Numerous SMEs, particularly those situated in remote regions, confront challenges in accessing formal banking amenities. The digital loans programme can bridge this divide by furnishing a straightforward and accessible loan application process, thereby fostering financial inclusion.

Promoting Formality: The programme's reliance on tax and GST information encourages SMEs to uphold meticulous financial records and adhere to tax statutes. This formalization can ameliorate the general well-being of the SME sector and contribute to the economic advancement of the nation.

Nurturing Ingenuity: By diminishing the time and exertion essential for loan approvals, the programme enables SMEs to concentrate on their principal business undertakings and innovation. This emphasis on innovation can culminate in the inception of fresh products and services, propelling competition and growth in the market.

Additional Financial Solutions from Oxyzo:

Oxyzo is advancing significantly in the financial domain as a Non-Banking Financial Company (NBFC) and digital platform, complementing SBI's innovative strategies. The company provides prompt disbursement and smooth documentation for Small and Medium Enterprises (SMEs) through a range of financial products, such as business loans, purchase financing, Loan Against Property (LAP), and invoice discounting, thereby ensuring rapid and efficient access to financial resources for SMEs by utilizing technology.

The SME digital loans initiative by SBI marks a notable advancement in the banking sector, aimed at fostering the growth of SMEs in India. Through the utilization of data sourced from Tax and GST filings, the program facilitates swift and effective credit evaluations and loan authorizations, guaranteeing timely availability of funds for SMEs.

This endeavour not only supports SMEs but also contributes to the overarching objective of promoting financial inclusivity and economic progress. In the evolving landscape of the banking sector due to digitalization, initiatives like SBI's SME digital loans program are pivotal in nurturing a dynamic and flourishing SME industry. By enabling expedited and transparent credit access, this program has the potential to empower numerous small and medium enterprises, thereby propelling innovation, expansion, and economic well-being throughout India.

To Conclude:

Regulation by the Reserve Bank of India in the realm of the 'Digital Lending Market' is of paramount importance due to its role in fostering sustained long-term growth within this sector. Presently, a significant portion of Digital Lending activities consists of short-term credit transactions, predominantly utilized by individuals with lower incomes or facing financial hardships. The provision of short-term small credit services to underserved communities has the potential to contribute to the expansion of the middle-class demographic in the nation, a pivotal factor in fostering a robust economy. Nonetheless, an unmonitored lending environment can give rise to unethical commercial behaviours that could undermine the reliability of extensive digital lending practices.

It is imperative that any short-term credit instruments offered to underserved populations adhere to principles of transparency, affordability, and a focus on enhancing financial inclusion rather than perpetuating financial exclusion. Therefore, the ethical conduct of 'Digital Lending' must be prioritized, following the most stringent regulatory standards possible, a mandate that the Reserve Bank of India diligently upholds through its periodic directives. In essence, the efforts of the Reserve Bank of India have been instrumental in establishing a structured regulatory landscape for Digital Lending in India, fostering heightened levels of transparency and accountability within the sector while ensuring a supervisory role to safeguard the interests of customers.

References:

(a) Reserve Bank of Guidelines on Digital Lending.

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Reserve Bank of India Prudential Norms (Project Under Implementation, Directions, 2024)

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The Reserve Bank of India has, over the past few years, taken concerted measures for putting in place a principle-based regime for resolution of stressed assets. The Prudential Framework for Resolution of Stressed Assets issued on June 7, 2019 ('Prudential Framework') provides a comprehensive framework for early recognition and resolution of stress in borrower account. However, restructuring of exposures relating to projects under implementation on account of change in **Date of Commencement of Commercial Operations (DCCO)** was excluded from the ambit of the Prudential Framework, pending further review.

Project finance is a method of financing in which the lender primarily looks to the revenue generated by an individual project as a source of repayment and security for the loan. This type of financing is typically used for large, complex and expensive facilities such as power plants, chemical processing plants, mines, transportation infrastructure, environment, telecommunications, etc.

These Directions are issued to provide a harmonised prudential framework for financing of projects in Infrastructure, Non-Infrastructure and Commercial Real Estate sectors by regulated entities (REs). These Directions also lay down revised regulatory dispensations for changes in the Date of Commencement of Commercial Operations (DCCO) of such projects in the backdrop of a review of the extant instructions and analysis of the risks inherent in such financing.

For the purpose of Application of Prudential Guidelines contained in these Directions, Projects shall be broadly divided into **Three Phases** namely,

(a) Design phase: This is the first phase which starts with the conception of the Project and includes, inter-alia, Designing, Planning, Obtaining all applicable Clearances / Approvals till its Financial Closure.

(b) Construction Phase: This is the second phase which begins after the Financial Closure and ends on the day before the DCCO.

(c) Operational Phase: This is the last phase which starts with Commencement of Commercial operation by the Project.

Lenders desirous to have project finance exposures shall have a Board-approved policy for resolution of stress in the projects on occurrence of a credit event.

Considering the long gestation period of projects relating to infrastructure, non-infrastructure and commercial real estate sectors, RBI has proposed a "harmonised prudential framework for the financing of projects.

For any project, all mandatory pre-requisites should be in place before financial closure. An indicative list of such pre-requisites includes availability of encumbrance free land and / or right of way, environmental clearance, legal clearance, regulatory clearances, etc., as applicable for the project. However, for infrastructure projects under PPP model, land availability to the extent of 50% or more can be considered sufficient by lenders to achieve financial closure.

For all projects financed by the lenders, it must be ensured that financial closure has been achieved and DCCO is clearly spelt out and documented prior to disbursement of funds. Additionally, lenders shall ensure that disbursal is proportionate to the stages of completion of the project as also to the progress in equity infusion, as agreed. In case of PPP projects, disbursement of funds should begin only after declaration of the Appointed date of the project.

The project specific disbursement schedule vis-à-vis stage of completion of the project shall be prescribed by the lenders. Further, the lender's Independent Engineer (LIE)/ Architect must certify the stages of completion of the project.

The dispensations available under this framework shall be available only to those lenders who have extended finance to such project loans based on a common agreement between the debtor and the lender(s).

In respect of infrastructure projects under PPP Model awarded by a Statutory Authority, the DCCO documented in the financial closure document may be modified to reflect any change in the 'Appointed Date' by the Concession Authority prior to disbursement of funds by way of a supplementary agreement between the lender/s and the sponsor subject to reassessment of project viability and obtention of sanction from appropriate authorities. Any change in DCCO after partial or full disbursement of loans shall be subject to provisions of Part J in Chapter 3 of RBI Guidelines.

Provided that the lenders shall put in place a framework to engage the Lender's Independent Engineer / Architect (LIE) and conduct a Techno-Economic Viability (TEV) study to evaluate the estimated expenditure for the project, economic viability, and bankability of these projects.

In projects financed under consortium arrangements, where the aggregate exposure of the participant lenders to the project is upto ₹ 1,500 crores, no individual lender shall have an exposure which is less than 10% of the aggregate exposure. For projects where aggregate exposure of lenders is more than ₹ 1,500 crores, this individual exposure floor shall be 5% or ₹ 150 crores, whichever is higher.

Notwithstanding the above, Post DCCO, lenders may acquire from or sell exposures to other lenders (new/ existing) in the multiple banking/consortium arrangements, and in compliance with guidelines contained in the Master Direction on Transfer of Loan Exposures as updated from time to time.

The financing agreement shall generally not allow any provision for moratorium on repayments beyond DCCO period and repayment structure shall be realistically designed to factor in the lower initial cash flows.

Provided that, in cases where a moratorium on repayments beyond DCCO is granted, the same shall not exceed six months from the commencement of commercial operations.

The original or revised repayment tenor, including the moratorium period, if any, shall not exceed 85% of the economic life of the project.

A positive Net Present Value (NPV) is a prerequisite for any Project financed by lenders. Any subsequent diminution in NPV during the construction phase, either due to changes in projected cash flows, project life-period or any other relevant factor which may lead to credit impairment, shall be construed as a credit event. Accordingly, lenders shall get the project NPV independently re-evaluated every year.

<u>All lenders shall maintain provisions on exposures to projects under implementation at various stages as under</u>:

Construction Phase: A general provision of 5% of the funded outstanding shall be maintained on all existing as well as fresh exposures on a portfolio basis.

Operational Phase: Once the project reaches the 'Operational phase', the above provisions specified, can be reduced to 2.5% of the funded outstanding. This can be further reduced to 1% of the funded outstanding provided that the project has:

(a) a **positive net operating cash flow that is sufficient to cover current repayment obligation to all lenders**, and

(b) total long-term debt of the project with the lenders has declined by at least 20% from the outstanding at the time of achieving DCCO.

The provisioning of 5% for Standard Assets during construction phase shall be achieved in a phased manner as per the following timeline:

(a) 2 per cent – with effect from March 31, 2025 (spread over the four quarters of 2024-25)

(b) 3.50 per cent – with effect from March 31, 2026 (spread over the four quarters of 2025-26)

(c) 5.00 per cent – with effect from March 31, 2027 (spread over the four quarters of 2026-27)

To Conclude, the draft norms said in projects financed under consortium arrangements, where the aggregate exposure of the participant lenders to the project is up to ₹ 1,500 crore, no individual lender shall have an exposure which is less than 10 per cent of the aggregate exposure. For projects where aggregate exposure of lenders is more than ₹ 1,500 crore, this individual exposure floor shall be 5 per cent or ₹ 150 crore, whichever is higher. The draft guidelines have suggested that once the project reaches the operational phase, the 5 per cent provisions can be reduced to 2.5 per cent of the funded outstanding. It can be further reduced to 1 per cent of the funded outstanding provided that the project has a positive net operating cash flow that is sufficient to cover current repayment obligation to all lenders, and total long-term debt of the project with the lenders has declined by at least 20 per cent from the outstanding at the time of achieving DCCO. RBI underscored that a positive net present value (NPV) is a prerequisite for any project financed by lenders. Any subsequent diminution in NPV during the construction phase, either due to changes in projected cash flows, project life-period or any other relevant factor which may lead to credit impairment, shall be construed as a credit event. Accordingly, lenders shall get the project NPV independently reevaluated every year.

References:

(a) RBI Draft Circular on Prudential Norms-Project Finance.

Information Technology Audit (Outsourcing Activities)

Shri M. Rajesh
Asst. General Manager (IA)
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A Banking Organization intending to delegate any of its IT functions must establish a comprehensive IT outsourcing policy approved by the Board. This policy should encompass various aspects such as the delineation of Roles and Responsibilities of the Board, Board Committees (if applicable), Senior Management, IT Function, Business Function, as well as oversight and assurance functions concerning the outsourcing of IT services. Additionally, it should address the selection criteria for such activities and service providers, parameters for determining significant outsourcing based on overarching criteria, delegation of authority based on risk and significance, contingency plans for disaster recovery and business continuity, mechanisms for monitoring and evaluating the operations of these functions, and procedures for termination and exit strategies, including ensuring business continuity in case a third-party service provider discontinues the outsourcing agreement.

Most financial institutions and regulated bodies have extensively utilized Information Technology (IT) and IT-enabled Services (ITeS) to bolster their operational frameworks, as well as the range of products and services extended to their clientele. These entities often delegate a significant portion of their IT functions to external parties, subjecting themselves to various vulnerabilities. Such regulated bodies encompass banks, primary co-operative banks, Non-Banking Financial Companies, Credit Information Companies, and establishments like EXIM Bank, NABARD, NaBFID, National Housing Bank ('NHB'), and Small Industries Development Bank of India ('SIDBI').

The RBI emphasized that the fundamental objective of these guidelines is to safeguard that outsourcing agreements do not compromise the capacity of regulated bodies to meet their obligations to customers, nor obstruct the RBI's supervision effectively.

Scope of "Outsourcing of IT Services":

a. Managing IT infrastructure, providing maintenance and support (hardware, software, or firmware);

b. Overseeing network and security solutions, maintenance (hardware, software, or firmware);

c. Handling Application Development, Maintenance, and Testing; Application Service Providers (ASPs) including ATM Switch ASPs;

d. Executing services and operations linked to Data Centers;

e. Providing Cloud Computing Services;

f. Offering Managed Security Services; and

g. Managing IT infrastructure and technology services connected to the payment system ecosystem.

Notable Highlights:

Responsibility of Regulated Entities:

The responsibility of regulated entities in outsourcing activities is crucial. It is imperative that outsourcing does not reduce the obligations of the regulated entity, its Board, and Senior Management. Ultimately, they are accountable for the outsourced activity. Therefore, the regulated entity must ensure that the service provider upholds the same high standard of care as the entity would if the activity was not outsourced. Care must be taken to avoid engaging an IT service provider that could compromise or weaken the entity's reputation.

IT Outsourcing Policy:

Regulated entities looking to outsource IT activities must establish a comprehensive Board-approved IT outsourcing policy. This policy should outline the roles and responsibilities of the Board, Board Committees,

Senior Management, IT function, business function, as well as oversight and assurance functions regarding IT service outsourcing. Additionally, it should detail criteria for selecting activities and service providers, defining material outsourcing, delegating authority based on risk and materiality, disaster recovery and business continuity plans, monitoring and reviewing operational activities, and outlining termination processes and exit strategies, particularly in the event of a third-party service provider discontinuing the outsourcing arrangement.

Role of the Bank Board:

The Board plays a significant role in overseeing IT outsourcing activities. Among its responsibilities are establishing a framework for approving such activities based on risks and materiality, as well as approving policies to assess the risks and materiality of current and potential IT outsourcing agreements.

IT Outsourcing Policies and Procedures:

Senior management holds the responsibility of formulating IT outsourcing policies and procedures. These should involve evaluating risks and materiality associated with current and potential IT outsourcing arrangements. The framework used should align with the organization's enterprise-wide risk management, approved by the Board.

Assessment of Concentration Risk:

Regulated entities must thoroughly evaluate concentration risks stemming from multiple outsourcings to the same service provider or outsourcing critical functions to a limited number of providers. Understanding and mitigating concentration risks is essential in outsourcing activities.

Business Continuity Plan and Disaster Recovery Plan: providers:

Regulated entities are mandated to ensure their service providers establish robust frameworks for documenting, maintaining, and testing Business Continuity Plans (BCP) and Disaster Recovery Plans (DRP). These plans should align with the nature and scope of the outsourced activity, following guidelines issued by RBI regarding BCP/DR requirements.

Outsourcing Agreement should:

- Description of the outsourced activity, incorporating suitable service and performance criteria, including those for the sub-contractors, if applicable;
- Ensuring the Regulated Entities (REs) has effective access to all data, documentation, records, information, logs, alerts, and business premises pertinent to the outsourced activity, which are under the control of the service provider;
- Consistent monitoring and evaluation of the service provider by the Regulated Entities to holistically manage risks continually, thereby enabling prompt corrective actions when necessary;
- Identification of material adverse events (e.g., data breaches, denial of service, service unavailability, etc.) and incidents that must be reported to the Regulated Entities for timely risk mitigation and adherence to statutory and regulatory directives;
- Adherence to the stipulations of the Information Technology Act, 2000, other relevant legal obligations, and standards for safeguarding customer data;
- Specification of deliverables, including Service-Level Agreements (SLAs) formalizing performance benchmarks for assessing the quality and quantity of services rendered;
- Mandating data storage (as applicable to the concerned Regulated Entities) solely within India in accordance with existing regulatory mandates;
- Inclusion of clauses necessitating the service provider to furnish details of data (related to the Regulated Entities and its clients) captured, processed, and retained;
- Implementation of safeguards to ensure the confidentiality of data belonging to the Regulated Entities and its clients, and outlining the service provider's accountability to the Regulated Entities in the event of security breaches and unauthorized disclosure of such information;
- Identification of the types of data/information that the service provider (vendor) is authorized to disclose to the Regulated Entities clients and/or any other entities;
- Defining the dispute resolution process, events constituting default, indemnities, remedies, and recourse mechanisms available to the concerned parties;
- Development of contingency plan(s) to guarantee business continuity and compliance with testing prerequisites;
- Entitlement to conduct audits of the service provider (including its sub-contractors) by the RE, whether through its internal or external auditors, or agents

acting on its behalf, and to acquire copies of any audit or review reports concerning the service provider's performance for the RE;

- Right to request information from the service provider regarding the third parties (in the supply chain) engaged by the former;
- Recognition of regulators' authority to inspect the service provider and any of its sub-contractors. Insertion of clauses permitting RBI or its authorized representatives to access the RE's IT infrastructure, applications, data, documents, and other pertinent information provided to, stored, or processed by the service provider and/or its sub-contractors in connection with the scope of the outsourcing arrangement;
- Incorporation of clauses holding the service provider contractually accountable for the performance and risk management practices of its sub-contractors;
- Requirement for the service provider to adhere to directives issued by the RBI concerning the outsourced activities, through specific contractual terms and conditions outlined by the RE.
- Clauses mandating prior approval or consent from the Responsible Entity (RE) for the engagement of sub-contractors by the service provider in the context of outsourcing activities, whether in full or in part;
- Termination provisions delineating the rights of the RE, encompassing the capacity to systematically transition the intended IT-outsourcing agreement to an alternate service provider, when deemed necessary or advantageous;
- Stipulation requiring the service provider to collaborate with pertinent governmental bodies in instances of insolvency or resolution involving the RE;
- Inclusion of a provision to assess the expertise of the service provider's personnel delivering fundamental services as "critical staff," thereby allowing a restricted number of employees with contingency plans to perform essential functions on-site during emergencies, such as pandemics;
- Clause necessitating appropriate reciprocal agreements between service providers and Original Equipment Manufacturers (OEMs); and
- Requirement for a non-disclosure pact concerning information retained by the service provider.

Conclusion:

With the proliferation of the internet in India, there is a development of more advanced and effective technologies, which are being utilized by various sectors of the economy, with the financial sector being one of them. The financial sector has been extensively delegating their IT service needs to external parties to access these advanced technologies more easily. This process exposes financial institutions to notable financial, operational, and reputational risks, as highlighted by the Reserve Bank of India.

References: RBI Master Directions.

WEBINARS AND EVENTS ORGANIZED BY THE BFSIB

ANALYSIS OF MONETARY POLICY STATEMENT 2024-25

A webinar was organized by The Banking, Financial Services and Insurance Board of The Institute of Cost Accountants Of India on the topic Analysis Of Monetary Policy Statement 2024 on 12.4.24. The webinar was graced by Shri Govind Gurnani, former AGM, RBI as the chief guest and speaker.

Chairman BFSIB CMA Chittaranjan Chattopadhyay welcomed the august presence at the seminar and expressed his delight for such a value addition and splendid webinar.

Shri Gurnani shared a ppt presentation and delved on what is monetary policy its objectives and the types of monetary policy, the members of monetary policy committee and its functions and then proceed to the decisions and deliberations of the monetary policy committee that the RBI has taken for projecting uh real GDP growth as well as inflation in the Indian economy. He also discussed about the various Developmental and Regulatory policy measures which the RBI has proposed at the MPC meet and its implications and also expressed his thoughts on the policy report.

At the outset he expressed his satisfaction with the current state of our country's economy. Our GDP growth is robust, inflation is moderating, the financial sector is stable, the external sector remains resilient, and foreign exchange reserves are at an all-time high. The eminent speaker said that the topic is pertinent because the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) has recently made important decisions on the monetary policy for the financial year 2022-2025, which deserve analysis.

Monetary policy refers to the actions taken by a country's central bank to control the money supply for price stability, economic stability, and financial stability. The central bank uses instruments like the repo rate, reserve requirements, and open market operations to influence the aggregate money supply and control inflation while supporting growth. The monetary policy is reviewed six times a year at bi-monthly intervals.

The MPC comprises six members: three external members—Dr. Shashank Kir, Dr. Ashima Goyal, and J.R. Varma—and three internal members—Dr. Rajeev Ranjan, Dr. Michael Patra, and Shaktikanta Das, who is also the Governor of the RBI. The MPC sets the policy repo rate, determines the stance of the monetary policy, and provides the rationale for their decisions based on inflation and real GDP growth.

The primary objectives of monetary policy are price stability, economic growth, and financial stability. The RBI targets a specific inflation rate, aiming for a medium-term target of 4% within a range of 2-6%. Economic growth is supported by ensuring adequate credit availability, and financial stability is promoted by building a robust financial system that can withstand economic crises. There are two main types of monetary policy: expansionary and contractionary. Expansionary policy aims to increase the money supply and keep interest rates low during economic downturns, while contractionary policy increases interest rates and tightens the money supply to control inflation.

At the recent MPC meeting, the policy repo rate was

left unchanged at 6.5% for the seventh consecutive time since February 2023. Other key rates include the standing deposit facility rate at 6.25%, the marginal standing facility rate at 6.75%, the bank rate at 6.75%, and the reverse repo rate at 3.35%.

The MPC has projected real GDP growth for 2024 at 7%, with quarterly projections of 7.1% for Q1, 6.9% for Q2, 7% for Q3, and 7% for Q4. The factors considered for this projection include a bright outlook for agriculture and rural activity, rising private consumption, increased investment by the private sector and government in capital expenditure projects, healthy balance sheets of banks and corporates, and rising capacity utilization in the manufacturing sector. External demand for goods and services is also expected to improve due to better global growth and trade prospects.

Despite the positive outlook, risks remain, such as geopolitical tensions and disruptions in trade. Inflation has moderated significantly, with headline inflation easing to 5.1% in January and February 2024 from 5.7% in December 2023. The RBI projects CPI inflation for 2024 at 4.5%, with quarterly projections of 4.9% for Q1, 3.8% for Q2, 4.6% for Q3, and 4.5% for Q4. Risks to inflation include food price uncertainties and geopolitical tensions affecting commodity prices and supply chains.

The RBI has kept the policy rates and monetary policy stance unchanged to ensure inflation progressively aligns with the target while supporting growth. The current inflation rate of 5.1% is within the comfortable zone of 2-6%, but the RBI aims to achieve and maintain a 4% target on a durable basis before considering rate cuts.

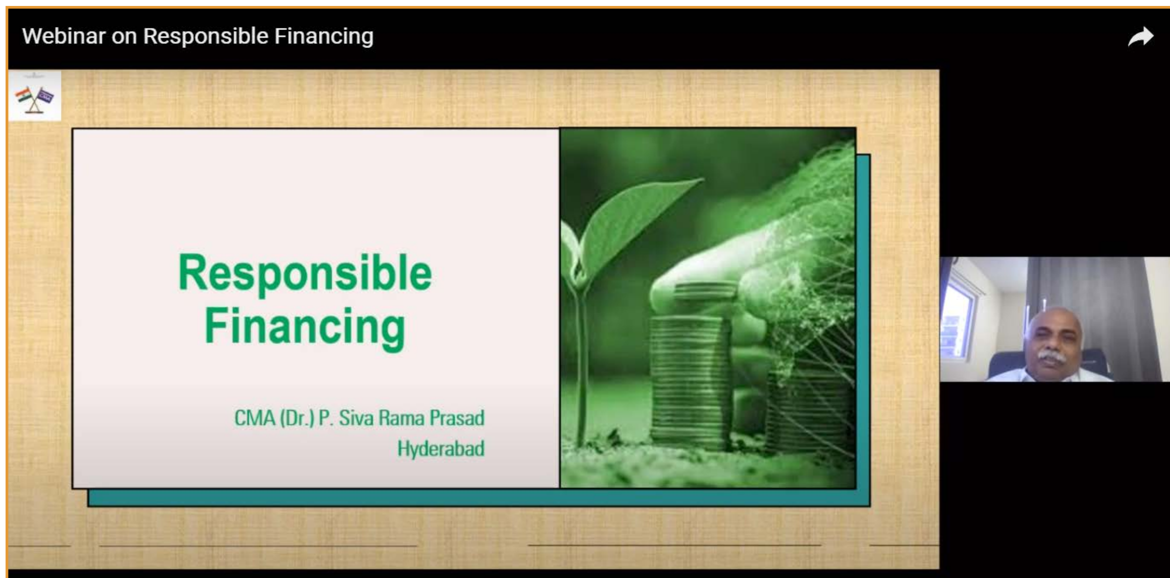
On the external financing side, India's foreign portfolio investment inflows turned around significantly in 2023-24, with net inflows of USD 41.6 billion, compared to net outflows in the preceding two years. India's foreign exchange reserves reached an all-time high of USD 645.6 billion as of March 2024. The current account deficit narrowed significantly due to a reduced trade deficit, robust growth in services exports, and strong remittances. Exports have grown at a healthy pace, particularly in Q4 of the last year.

The RBI has proposed several developmental and regulatory policy measures related to financial markets, regulations, payment systems, and fintech. These include allowing foreign investors in the International Financial Services Centre to trade and invest in sovereign green bonds, developing a mobile app for the RBI Retail Direct Scheme to improve access for individual investors, reviewing the Liquidity Coverage Ratio (LCR) framework, permitting small finance banks to deal in a broader range of interest rate derivative products, enabling cash deposits via Unified Payments Interface (UPI), allowing UPI access for prepaid payment instruments through third-party applications, and facilitating the distribution of Central Bank Digital Currencies (CBDCs) through non-bank payment system operators. These measures are aimed at enhancing the resilience and efficiency of the financial system while promoting financial inclusion and innovation. The RBI's commitment to maintaining stability and supporting sustainable economic growth is evident in its comprehensive approach to monetary policy and regulatory measures.

The detailed discussion covered the RBI's approach to maintaining financial stability, ensuring robust economic growth, and controlling inflation, while also highlighting recent regulatory measures to enhance the financial system's functionality and resilience.

After a successful question answer session the webinar was wrapped up by vote of thanks by CMA Dr. Aditi Dasgupta, Joint Director, BFSIB.

RESPONSBIBLE FINANCING



A webinar was organized by The Banking, Financial Services and Insurance Board of The Institute of Cost Accountants Of India on the topic **"Responsible Financing"** conducted on April 19, 2024. The webinar was graced by CMA Dr. P. Siva Rama Prasad, former AGM, SBI as the chief guest and speaker.

Chairman BFSIB CMA Chittaranjan Chattopadhyay welcomed the august presence at the seminar and expressed his delight for such a value addition and splendid webinar.

Dr. Prasad discussed responsible financing during a speech in Hyderabad, emphasizing its critical need in India today. He highlighted that current climate challenges, such as extreme heat waves and unpredictable weather patterns, underscore the urgency for banks to adopt responsible financing practices. Dr. Prasad mentioned the Reserve Bank of India's ESG guidelines, which mandate that banks ensure loans do not harm the environment. He stressed that financing should support eco-friendly projects like solar energy rather than contributing to pollution through thermal projects. Looking ahead, he advocated for comprehensive audits, including ESG audits, to monitor environmental impacts before and after loan disbursement, aligning with global efforts like the Paris Agreement to limit global warming.

The eminent speaker covered the concept of net-zero emissions by 2070, where industries must balance emissions with green initiatives. Banks are crucial in supporting three key sectors—agriculture, industry, and services—by financing environmentally friendly projects. They're shifting towards green loans, aligned with ESG (Environmental, Social, Governance) principles mandated by regulators like the Reserve Bank of India. This shift aims to promote sustainable development, encouraging investments in green industries like wind, solar, and hydro power. Banks now assess loans based on their environmental impact, focusing on reducing pollution and promoting eco-friendly practices across all sectors, not just industry.

Dr. Prasad outlined the principles of responsible lending and sustainable finance as emphasized by global institutions like the World Bank and the International Monetary Fund. Key aspects include the integration of Environmental, Social, and Governance (ESG) criteria into lending practices, ensuring that banks follow ethical conduct and ESG governance. Financial institutions are urged to minimize their environmental footprint by adopting technologies like cloud computing, solar panels, and wind energy. He also highlighted the importance of digital currencies, promoting green technology, and supporting eco-friendly industries and business models. Additionally, it emphasizes stakeholder engagement, maintaining transparency in operations, and the commitment to human rights. Banks are encouraged to adopt innovative practices to reduce carbon emissions and support sustainable development. The focus is on enhancing human and social development while maintaining ecological balance.

The concept being discussed emphasized the preference for business models that reduce carbon emissions, such

as those using scooters or motorcycles for deliveries. These models are favored because they significantly decrease environmental impact. Consequently, banks are encouraged to offer lower interest rates, reduced collateral requirements, and better margins to support such eco-friendly initiatives. This approach aligns with the trend of promoting Environmental, Social, and Governance (ESG) based lending, which the Reserve Bank of India (RBI) is actively encouraging through new regulations.

In terms of global practices, top banks like KfW in Germany, ING in the Netherlands, and Standard Chartered in the UK are highlighted for their commitment to sustainable financing. These banks prioritize funding projects that have a positive environmental and social impact, adhering strictly to ESG metrics. They provide transparent sustainability reports and train their staff to ensure compliance and promote a culture of responsibility.

The State Bank of India (SBI) is also making strides in this direction by migrating data servers to reduce emissions, funding solar projects, and providing loans for electric vehicles. SBI's efforts underscore the bank's role as a custodian of public wealth, emphasizing the importance of responsible lending to prevent long-term environmental and financial risks.

The discussion concluded with the suggestion that banks in India could benefit from incorporating environmental risk evaluations and audits both before and after loan sanctions. This practice, already adopted by some global banks, could be facilitated by engaging with the RBI and the Indian Banks Association (IBA) to formalize these procedures. This initiative would not only enhance the credibility of banks but also contribute to the broader goal of sustainable development.

After a successful question answer session, the webinar was wrapped up by vote of thanks by CMA Dibbendu Roy, Additional Director, and HoD, BFSIB.

BASEL III & IV : NORMS FOR RESILLIENCE OF BANKING SECTOR

A webinar was organized by The Banking, Financial Services and Insurance Board of The Institute of Cost Accountants Of India on the topic **Basel III & IV: Norms for Resilience of Banking Sector**" conducted on April 26, 2024. The webinar was graced by Shri Govind Gurnani, former AGM, RBI as the chief guest and speaker.

Chairman BFSIB CMA Chittaranjan Chattopadhyay welcomed the august presence at the seminar and expressed his delight for such a value addition and splendid webinar.

The eminent speaker said that the topic of the webinar has become increasingly important due to the bank failures in certain jurisdictions last year, which triggered a broader crisis in banking systems and financial markets globally. This turmoil highlighted three key points: fault lines in bank risk management and governance, the need for strong supervision, and the importance of prudent regulatory standards. The proper implementation of Basel norms, our scheduled commercial banks have remained resilient despite some recent bank failures in other jurisdictions.

He covered through a ppt presentation Basel norms, including Basel I, II, III, and the upcoming Basel IV. Basel norms are international banking rules set by the Basel Committee on Banking Supervision, aimed at promoting financial stability and reducing risk in the banking sector.

Basel I, implemented in the 1990s, focused on maintaining minimum capital based on risk-weighted assets, primarily addressing credit risk. Assets were categorized based on risk, with banks required to maintain capital equal to 8% of risk-weighted assets (9% in India). Basel II extended regulations to include three pillars: capital adequacy requirements, supervisory review, and market discipline. Pillar 1 involved calculating risk-weighted assets using standardized or internal rating-based approaches. Pillar 2 required banks to assess their internal capital adequacy and strategies. Pillar 3 mandated market discipline through information disclosure.

Moving to Basel III, introduced in phases from 2010 to 2017, it improved the quality and level of capital, increasing minimum capital requirements and introducing capital buffers. It also introduced liquidity requirements and a leverage ratio to ensure banks have sufficient capital and liquidity during financial stress.

The leverage ratio, set at 3%, is a non-risk-based measure to backstop risk-based capital requirements, ensuring banks maintain sufficient capital against their assets. This complements the capital adequacy ratio, which includes tier 1 and tier 2 capital as a percentage of risk-weighted assets. He stressed that banks must adapt to these evolving norms to ensure financial stability and resilience.

Banks must maintain capital using tier 1 capital as a percentage of total assets for the leverage ratio, unlike the capital adequacy ratio which uses risk-weighted assets. The RBI prescribes a 4% leverage ratio for systemically important banks and 3.5% for other banks. There are two main capital buffers: the capital conservation buffer, amounting to 2.5% of risk-weighted exposures, and the countercyclical buffer, which varies from 0% to 2.5% of total risk-weighted assets. The RBI has not yet implemented the countercyclical buffer. Basel III introduced two liquidity ratios: the liquidity coverage

ratio (LCR) and the net stable funding ratio (NSFR), both maintained at a minimum of 100%. The LCR requires banks to hold enough highly liquid assets to cover 30 days of stress funding, while the NSFR covers funding for one year under stress conditions. Additionally, Basel III introduced leverage ratio requirements and higher capital requirements for securitization products. Supervisors ensure banks have adequate capital and risk management techniques. Basel III's market discipline pillar mandates disclosures in capital, risk exposures, and capital adequacy. Basel IV, also known as Basel 3.1, further reforms banking regulations, including new standards for credit risk, operational risk, credit valuation adjustment risk, and revisions to the leverage ratio definition.

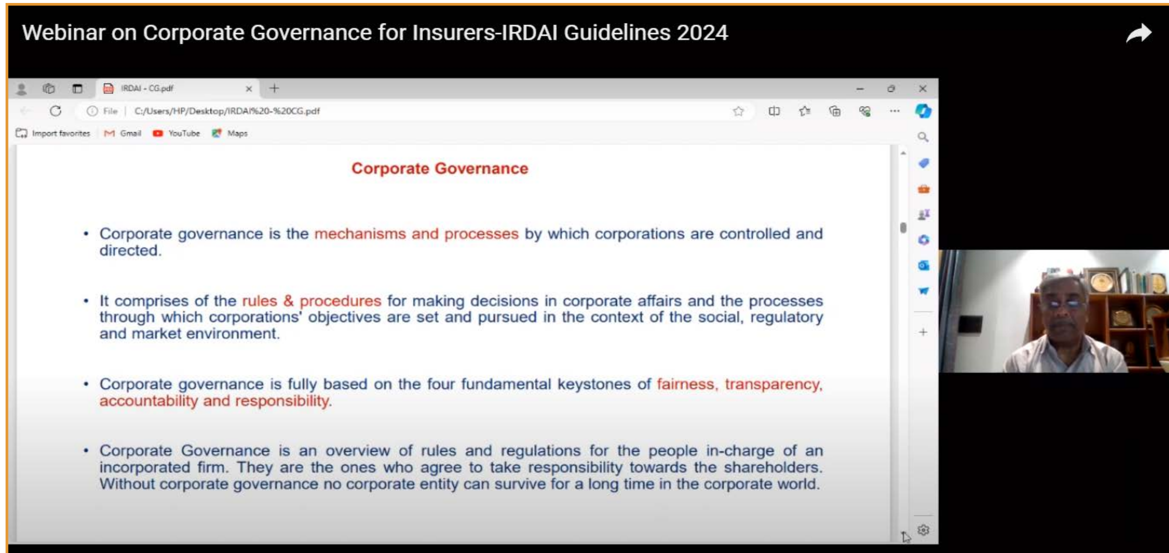
To determine the RIS rate, he said, we must consider the external rating given to the country and the risk-weighted assets for regulatory retail and other retail exposures. Regulatory retail exposures, including mortgages, student loans, and personal loans, have a risk rate of 75% prescribed by the supervisor, while other retail exposures have a risk rate of 100%. Equity and subordinated debt exposures are risk-rated between 150-250% due to their high volatility. Real estate exposures are evaluated with a focus on the loan-to-value ratio as the primary risk driver.

Under the new standard for operational risk defined by BCBS, the previous three approaches (basic indicator, standardized, and advanced measurement) are replaced by the standardized measurement approach. This approach uses two elements: the business indicator component and the internal loss multiplier. The business indicator component is a progressive measure of income increasing with bank size, calculated as an average of interest, dividend, services, and financial components over three years. The internal loss multiplier adjusts the baseline capital requirement based on a bank's operational loss experience.

The capital requirement for credit valuation adjustment (CVA) risk, introduced under Basel IV, involves two approaches: the standardized and the basic approach. Banks typically use the basic approach unless approved to use the standardized approach. CVA risk addresses losses from changes in CVA values due to counterparty credit spreads and market risk factors. The capital output floor requires banks to hold capital equal to at least 72.5% of risk-weighted assets as calculated under the standardized model, regardless of the internal model's suggestions. This floor is phased in, starting at 50% in 2023 and increasing to 72.5% by 2028. The revised definition of the leverage ratio is the capital measure (tier one capital) divided by the exposure measure, which includes on-balance sheet exposures, derivative exposures, security financing exposures, and off-balance sheet exposures. The Basel Committee prescribes a leverage ratio of 3% for risk-weighted assets, while the RBI prescribes 4% for systemically important banks and 3.5% for others. For global systemically important banks, an additional leverage ratio buffer of 0.5% is required, making the total 3.5% compared to 3% for other banks.

After a successful question answer session the webinar was wrapped up by vote of thanks.

CORPORATE GOVERNANCE FOR INSURERS - IRDAI GUIDELINES 2024



A webinar was organized by The Banking, Financial Services and Insurance Board of The Institute of Cost Accountants Of India on the topic **Corporate Governance for Insurers- IRDAI Guidelines 2024**" conducted on May 03. The webinar was graced by Dr. S.K.Gupta, CEO, ICMAI Social Auditors Organization, as the chief guest and speaker.

Chairman BFSIB CMA Chittaranjan Chattopadhyay welcomed the august presence at the seminar and expressed his delight for such a value addition and splendid webinar.

In the session on corporate governance for insurance regulations 2024, the eminent speaker acknowledged the rapid and significant changes in the world, not just due to the COVID-19 pandemic but also over the past three decades. These changes have transformed both our personal lives and business operations. The current business and economic environment is characterized by volatility, uncertainty, complexity, and ambiguity (VUCA), along with a constant fear of uncertainty (FU).

Despite these challenges, some well-established corporations continue to thrive by adapting and re-strategizing. Simultaneously, new-age companies and startups are emerging, with India having the third-largest startup ecosystem globally, boasting over 115 unicorns. Disruptive business models have become the norm, as seen with companies like Airbnb, Uber, and Amazon, which operate without traditional physical assets.

Today's companies often face profitless turnover and cashless profit, yet their valuations remain high. This shift reflects the changing metrics of corporate performance, focusing on value creation, preservation, and enhancement on a sustainable basis. Effective corporate governance is crucial for achieving these goals, ensuring companies can create, preserve, and enhance value for stakeholders.

Good corporate governance is essential for survival and sustainable growth in a dynamic and competitive environment. It helps build a competitive edge, earn stakeholder trust, and become a good corporate citizen. Corporate social responsibility (CSR) and ethical business practices are integral to this, ensuring companies give back to society and protect the environment.

Corporate governance involves managing an organization through policies and practices that impact performance, adhering to social, ethical, moral standards, and legal requirements. It is based on the agency theory, where shareholders (the real owners) appoint directors to manage the company. These directors establish policies and practices within social, ethical, moral norms, and laws, forming the framework of corporate governance. This framework ensures companies are managed, controlled, and directed effectively to achieve their vision, mission, and objectives.

Corporate governance is crucial as it ensures accountability to shareholders, efficient management, and reasonable returns. Integrated reporting now includes various types of capital—social, relational, intellectual, environmental, manufactured, and financial—each demanding returns and accountability.

Companies with strong corporate governance practices can raise funds at lower rates, much like financial instruments are rated for creditworthiness. Good governance enhances a company's valuation, which is not solely based on financial statements but also on non-financial metrics, including governance practices. Effective corporate governance promotes transparency, enabling informed investment decisions and ensuring compliance with regulatory and ethical standards globally. All stakeholders, including employees, the government, creditors, and shareholders, scrutinize a company's governance practices.

In India, the concept of corporate governance dates back to ancient times, with Chanakya's teachings on protecting shareholders' wealth and effectively utilizing assets. Modern corporate governance emphasizes ethical conduct, transparency, fairness, accountability, and equitable treatment of stakeholders. Companies must disclose material information to stakeholders and ensure their actions are fair and accountable. These principles are non-negotiable and applicable across various organizations and geographies.

The Insurance Regulatory and Development Authority of India (IRDAI) issued corporate governance regulations effective from March 20, 2024, for insurers to enhance their governance structures. These regulations aim to protect stakeholders, including policyholders, and require periodic reviews every three years. They apply to all insurers except foreign reinsurance companies. The regulations focus on establishing sound governance practices and protecting stakeholders' interests, ensuring insurers act as responsible corporate citizens and stewards.

Every insurer's board must include competent and qualified individuals, with qualifications and experience tailored to the insurer's scale, nature, complexity, and size. These qualifications can span financial and management expertise areas such as insurance, underwriting, actuarial work, finance, accounting, investment analysis, portfolio management, and legal fields. Each insurer should also have an optimal composition of independent and non-executive directors, with at least three independent directors as per the Companies Act 2013. If the number of independent directors falls below three, the insurer must inform the IRDAI and fill the vacancy within three months. The CEO should be a whole-time director, and the chairperson's appointment requires approval from a competent authority. Directors must be fit and proper at all times, meeting criteria like having no legal disabilities and no convictions. The board's role includes formulating strategy, overseeing management, ensuring risk management and internal controls, and establishing policies for achieving corporate objectives. They must ensure compliance with all applicable laws and regulations. Various committees, such as audit, nomination and remuneration, risk management, and policyholder protection, must be constituted, each with specific functions and responsibilities. Conflict of interest policies should be in place, and key management personnel should not hold more than one position within the insurer to avoid conflicts. Related party transactions must follow relevant provisions of the Companies Act and other regulations.

A policy on related party transactions must define a related party, detail what constitutes a transaction in the ordinary course of insurance business, determine arm's length pricing, and outline necessary approvals from the audit committee, board, and shareholders, as required by law. This policy should be reviewed annually due to the dynamic business environment. Insured companies must maintain continuous compliance with capital structure requirements and plan capital augmentation with statutory requirements in mind. Annual evaluation of the board and independent directors is mandatory, aligning with the Companies Act 2013. Succession planning for key managerial positions and directors should be in place and reviewed annually. Insurers within a corporate group must adhere to group-level governance policies, with allowances for specific business risks. Key management appointments must follow due diligence and NRC recommendations. The chief compliance officer, appointed for a minimum of three years, is responsible for compliance monitoring, reporting, and framework design. Vacancies in key positions must be filled within 180 days. A nomination and remuneration committee must oversee remuneration policies, ensuring they align with company objectives and stakeholder interests. Insurers must appoint at least two joint statutory auditors to avoid conflicts of interest, with board approval based on audit committee recommendations. Insurers must also have a stewardship policy for sustainable corporate citizenship, engaging actively in investee company governance. Disclosure requirements include board composition, meeting attendance, remuneration, and compliance status, with annual reports submitted to the competent authority. An ESG framework must be approved by the board and reviewed annually, including a climate risk management framework. IRDAI retains the power to issue guidelines, amendments, and clarifications as needed. Corporate governance should be a dynamic, integral part of an organization's DNA, beyond mere regulatory compliance. Best practices include ethics and ESG committees, annual strategy meetings, director training, and diverse board composition. Ensuring proactive stakeholder engagement and trust is crucial for sustainable growth, and evolving corporate governance practices are essential for survival and prosperity in the market.

After a successful question answer session the webinar was wrapped up by vote of thanks by CMA Dibbendu Roy, Additional Director, and HoD, BFSIB.

REGULATORY RESPONSES TO THE GLOBAL FINANCIAL CRISIS

A webinar was organized by The Banking, Financial Services and Insurance Board of The Institute of Cost Accountants Of India on the topic **Regulatory Responses to the Global Financial Crisis** conducted on May 10, 2024. The webinar was graced by CMA Dr. P. Siva Rama Prasad, former AGM, SBI as the chief guest and speaker.

At the outset Dr. Prasad covered the Great Depression of 1929-1939 and the Global Financial Crisis of 2007-2008, examining their impacts on both the US and global economies. He also discussed the consequences and challenges of financial crises and how different economies respond to such events, with a focus on India's coping mechanisms during these crises. Despite the global crisis, India managed to remain relatively safe while many other countries faced severe problems.

He shared a report indicating that the US GDP and job growth are decelerating, while inflation remains high. Due to globalization, issues in one major economy can quickly spread to others. Thus, understanding and addressing economic crises promptly is essential to prevent worsening conditions. The business cycle, comprising growth, peak, recession, and depression, affects all economies. The Great Depression was a prolonged and severe economic downturn from 1929 to 1939, lasting over a decade and affecting the global economy significantly. Similarly, the 2007-2008 financial crisis, primarily caused by large-scale defaults in subprime mortgage lending in the US, had widespread global repercussions.

The subprime mortgage crisis resulted from banks extending loans to high-risk borrowers, leading to massive defaults and liquidity problems. This crisis spread to other sectors, including agriculture, industry, and services, causing widespread economic distress.

Measures to address such crises include monetary policies by central banks and fiscal policies by governments. For instance, during the 2007-2008 crisis, the US Federal Reserve implemented aggressive monetary policies to inject liquidity into the economy. Similarly, reducing tax rates can increase disposable income, boosting spending and economic growth.

Understanding these crises and regulatory responses helps us prepare better for future challenges, ensuring both individual and collective financial stability.

Countries facing financial crises often resort to aggressive and unconventional measures to restore market confidence. The IMF sometimes steps in to rescue the most affected countries. Institutions like the International Bank for Reconstruction and Development (World Bank) and the IMF provide short-term loans to stabilize economies quickly. During a financial crisis, national governments may nationalize banks to maintain public confidence. This happened in the U.S. with a $700 billion rescue plan, which was mirrored in other countries through nationalization and bank recapitalization.

The Reserve Bank of India (RBI) took proactive measures during the global financial crisis to stabilize the Indian economy. Despite facing liquidity issues due to the

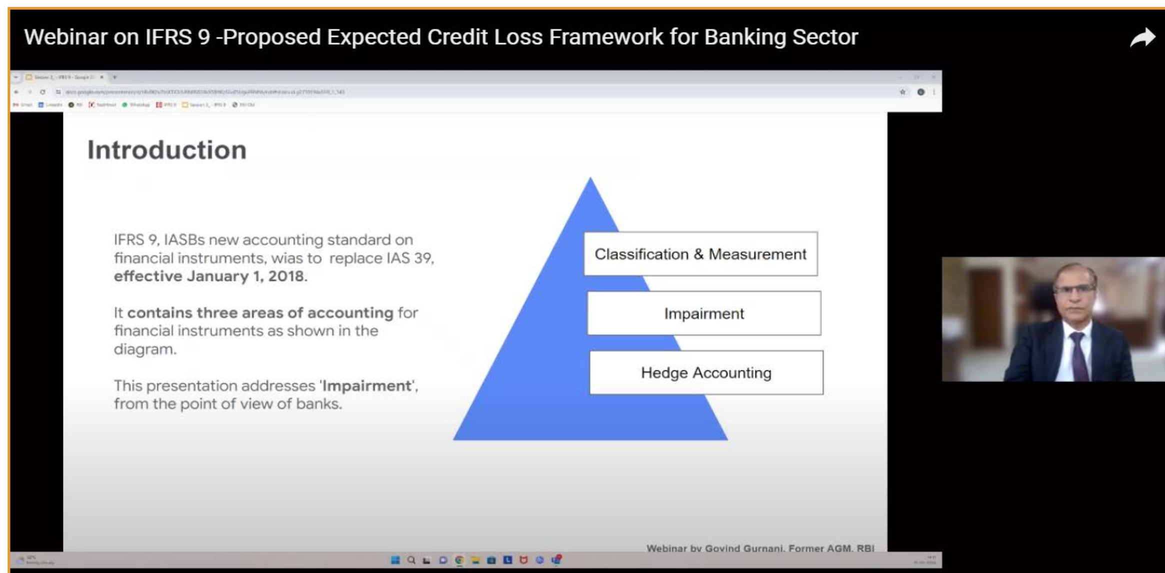
outflow of foreign investments, the RBI reduced the cash reserve ratio (CRR) and injected substantial liquidity into the banking system. This helped maintain the stability of Indian banks, which were not heavily exposed to U.S. subprime assets. The RBI's efforts ensured that the financial sector remained strong, with capital adequacy ratios well above the required benchmarks.

The global crisis led to stock market declines, but timely interventions by the RBI and government measures helped mitigate the impact. The RBI's actions included reducing interest rates and injecting liquidity, which supported banks and the broader economy. Despite the crisis, India's GDP growth remained relatively strong, and the country continued to attract foreign direct investment.

The lessons from the crisis highlight the importance of proactive regulatory measures, government intervention to maintain confidence, and ensuring the financial system's stability through effective communication and policy actions. The crisis underscored the need for quality lending, robust financial supervision, and coordinated efforts among global financial regulators. India's ability to withstand the crisis was attributed to strong economic fundamentals and timely interventions by the RBI and the government.

After a successful question answer session the webinar was wrapped up by vote of thanks by CMA Dr. Aditi Dasgupta, Joint Director, BFSIB.

IFRS 9-PROPOSED EXPECTED CREDIT LOSS FRAMEWORK FOR BANKING SECTOR



A webinar was organized by The Banking, Financial Services and Insurance Board of The Institute of Cost Accountants Of India on the topic **IFRS 9 -Proposed Expected Credit Loss Framework for Banking Sector"** conducted on May 17, 2024. The webinar was graced by Shri Govind Gurnani, former AGM, RBI as the chief guest and speaker.

Chairman BFSIB CMA Chittaranjan Chattopadhyay welcomed the august presence at the seminar and expressed his delight for such a value addition and splendid webinar.

Dr. Gurnani informed about the current state of non-performing assets (NPAs) and provisions for credit losses in India's banking sector, as per the RBI Financial Stability Report dated September 30, 2023. The gross NPA ratio of scheduled commercial banks dropped to a multi-year low of 3.2%, and the net NPA ratio also reached a multi-year low of 0.8%. The provisioning coverage ratio increased to 75.3%, surpassing the required 70%. These improvements are attributed to the effective implementation of the RBI's prudential norms on asset classification and provisioning.

IFRS 9, developed by the International Accounting Standards Board, is a new accounting standard for financial instruments that replaced IAS 39 effective January 1, 2018. It encompasses three main areas: classification and measurement of financial instruments, credit impairment methodology, and hedge accounting. Today's presentation will focus on the credit impairment model. IFRS 9 adopts a forward-looking approach, requiring provisions based on expected credit losses from initial asset recognition. This model likely demands enhanced provisions, also applying to off-balance sheet items, necessitating advanced credit risk modelling skills and robust data infrastructure. Though challenging, this model aims to instill greater investor confidence and enhance transparency in credit loss forecasting.

The current incurred loss model is backward-looking, recognizing impairments based on past events and current conditions, whereas the expected credit loss model is forward-looking, considering past events, current conditions, and future economic forecasts.

The incurred credit loss model has notable weaknesses, including delays in recognizing losses and overstatement of income, impacting banks' capital base. To address these issues, the RBI has initiated steps for adopting the expected credit loss model, including a discussion paper released in January 2023 and a working group constituted in October 2023 to provide technical inputs. The RBI plans to issue draft guidelines based on the working group's report by September 2024 and final guidelines by the end of the financial year.

The scope of the IFRS 9 impairment model includes investments in debt instruments measured at amortized cost or fair value through other comprehensive income, loan commitments not measured at fair value through

profit or loss, financial guarantee contracts, lease receivables, trade receivables, and contract assets. Equity investments and loan commitments measured at fair value through profit and loss are excluded.

The objective of the expected credit loss (ECL) model is to recognize lifetime ECLs for all financial instruments with a significant increase in credit risk since initial recognition. The model updates ECLs at each reporting date to reflect changes in credit risk, providing timely information about credit losses. Measurement of ECLs should reflect unbiased, probability-weighted outcomes, time value of money, and reasonable, supportable information about past events, current conditions, and future economic forecasts.

ECL calculations involve components like exposure at default (EAD), probability of default (PD), and loss given default (LGD). EAD measures the total exposure at default, PD is the likelihood of default over a specific period, and LGD represents the percentage of EAD expected to be lost if default occurs. Additionally, a discount factor is used to calculate the present value of future cash flows at the reporting date.

The ECL model categorizes credit exposures into three stages based on credit risk increase since initial recognition. Stage 1 covers performing assets, recognizing 12-month ECLs. Stage 2 covers underperforming assets with significant credit risk increase, recognizing lifetime ECLs. Stage 3 covers credit-impaired assets, recognizing lifetime ECLs and calculating interest revenue based on loans' amortized cost.

In assessing significant increase in credit risk, entities compare default risk at the reporting date with initial recognition, considering available reasonable and supportable information. A practical expedient assumes a significant increase in credit risk if contractual payments are over 30 days past due, though this can be rebutted with reasonable information. IFRS 9's ECL model is more comprehensive and forward-looking than the incurred loss model, aiming to improve credit risk management and financial reporting transparency in the banking sector.

Under IFRS 9, a significant increase in credit risk leads to recognizing lifetime expected credit losses, whereas if credit risk hasn't significantly increased, only 12-month expected credit losses are recognized. For the general approach, interest revenue for Stage 1 and Stage 2 is based on the gross carrying amount, while for Stage 3 (credit impaired), it's based on amortized cost. The simplified approach, used for short-term receivables, mandates lifetime expected credit losses, and does not require separate probability of default and loss given default calculations, instead using historical loss rates. This is obligatory for trade receivables without significant financial components, but optional for those with such components and lease receivables. A significant financing component exists if the payment timing provides a substantial financing benefit. For purchased or originated credit-impaired financial assets, the specific approach requires recognizing lifetime expected credit losses by adjusting the effective interest rate. Disclosure requirements include credit risk management practices, quantitative and qualitative information for evaluating expected credit loss amounts, and credit risk exposures. The IFRS 9 impairment model, effective globally from January 1, 2018, but not yet in India, introduces a forward-looking credit loss model with three accounting stages based on credit risk and incurred losses. It includes general, simplified, and specific approaches for different financial asset categories and expects banks to use these approaches unless they face practical implementation challenges.

After a successful question answer session, the webinar was wrapped up by vote of thanks by CMA Dibbendu Roy, Additional Director, and HoD, BFSIB.

FINANCING TO FARMER PRODUCER ORGANISATIONS (FPOS) BY BANKS

A webinar was organized by The Banking, Financial Services and Insurance Board of The Institute of Cost Accountants Of India on the topic **Finance to Farmer Producer Organisations (FPOs) by Banks**" conducted on May 22, 2024. The webinar was graced by CMA Dr. Srihari Chava, member ACMB and CMA Dr. P. Siva Rama Prasad, former AGM, SBI as the chief guest and speaker.

Chairman BFSIB CMA Chittaranjan Chattopadhyay welcomed the august presence at the seminar and expressed his delight for such a value addition and splendid webinar.

Dr. Chava, presented through a ppt and said that the very objective of instituting the FPO (Farmer Producer Organization) model in 2010 or 2012 was to enable farmers to buy inputs at lower costs and sell their outputs at higher prices. The aim was for farmers to purchase inputs 20% cheaper and sell their final produce to consumers at least 20-25% higher than before. Despite being more than 12 years old, the model has not been successfully implemented, primarily due to FPOs not receiving adequate funds from banks. Understanding the agricultural working capital cycle is crucial: farmers start with cash, invest in seeds, labor, fertilizers, and other inputs, and then wait for the cropping period, which can range from 90 days to 14 months. The entire process, from cash investment to cash return, can take 4 to 16 months.

An effective FPO typically has around 400 members. Each marginal farmer can easily obtain a Kisan Credit Card loan of three lakhs at a concessional rate. For 400 farmers, this amounts to 12 crores in credit eligibility. Banks provide this credit without collateral. If 200 members buy inputs and sell produce through the FPO, six crores of financial transactions could be routed through the FPO. FPOs can obtain credit from banks by leveraging members' Kisan Credit limits for input purchases and by using warehouse-based pledge credit for output funding.

The model is similar to those in manufacturing and service industries. Innovation is key to overcoming the challenges faced by FPOs. The SMART (State of Maharashtra Agribusiness and Rural Transformation) scheme in Maharashtra exemplifies such innovation, offering funding from 10 lakhs to 100 crores to support enterprise growth and market access. CMAs (Cost and Management Accountants) can support FPOs by leveraging existing facilities and participating in schemes like SMART. This collaborative effort can help FPOs achieve their goals and improve agricultural productivity.

Dr. Prasad made a ppt presentation and said that in an agrarian economy like India, agriculture and allied activities are the backbone, with 67% of the population involved. Agriculture supports various industries, such as food and sugar, making balanced growth essential.

Despite its importance, farmers face numerous challenges, including rising input costs, inadequate output prices, and susceptibility to natural calamities. This has led to perpetual debt cycles for farmers. To address these issues, Farmer Producer Organizations (FPOs) have been promoted to provide comprehensive support, including inputs, credit, technical assistance, and market linkages. FPOs facilitate value addition, quality control, and direct market access, reducing dependence on middlemen and enhancing profitability. The concept of FPOs aims to transform rural agriculture by making modern technologies and institutional support accessible, ensuring that farmers receive fair prices and support for sustainable growth.

Water management techniques are crucial for maintaining agricultural productivity. By utilizing such methods, farmers can enhance their knowledge and improve their interaction, even without formal education. This, in turn, helps them better understand input costs, output costs, and farm mechanization. As farmers start working in clusters, they can improve agricultural production, post-harvest processing, and value-added products.

Financing options for Farmer Producer Organizations (FPOs) have become more accessible. Banks provide loans under the Kisan Credit Card scheme with low-interest rates and minimal collateral requirements. These loans cover input costs, consumption needs, and other expenses. Additionally, banks offer term loans and working capital for FPOs to build infrastructure like godowns, cold storage units, and technical equipment.

FPOs need to be properly organized and disseminate information effectively. Eligibility criteria for loans include legal registration, a certain amount of productive land, and positive net worth. The Credit Guarantee Corporation and other schemes reduce the need for collateral security. The process of forming an FPO involves several stages, including baseline surveys, capacity building, mobilization, formalization, business planning, and implementation. Each stage requires specific deliverables and verification to qualify for government support and funding. By organizing farmers into FPOs, they can collectively address issues, access better resources, and achieve economies of scale, leading to increased incomes and sustainability in agriculture. Formation and support of FPOs are promoted by the government and institutions like NABARD. These organizations provide financial assistance for inputs, production, processing, value addition, and market linkages. Professional services for FPO formation can offer fee-based income for those involved.

Overall, there are significant opportunities for developing FPOs, benefiting both farmers and professionals. With government support, financial institutions' backing, and proper organization, FPOs can become sustainable and profitable entities, fostering rural development and reducing urban migration.

Dr. Prasad, stressed that there is a significant opportunity for professionals, such as company secretaries and Chartered Management Accountants (CMAs), to assist in the formation and management of FPOs, thereby earning fees and establishing long-term relationships with these organizations.

After a successful question answer session, the webinar was wrapped up by vote of thanks by CMA Dibbendu Roy, Additional Director, and HoD, BFSIB.

EVOLUTION OF WEB 3.0 AND FINTERNET

The Banking, Financial Services and Insurance Board of the Institute of Cost Accountants of India hosted a webinar on June 7, 2024, focusing on **" Evolution of Web 3.0 and Finternet"**. The event featured Dr. Paritosh Basu, Sr. Director, Stragility Consulting Pvt Limited. as the esteemed chief guest and speaker.

CMA Chittaranjan Chattopadhyay, Chairman of BFSIB, extended a warm welcome to the distinguished participants at the seminar, expressing his delight at the valuable addition and the success of the webinar.

Dr. Basu, provided through a PPT presentation, a comprehensive overview of the digital transformation in the context of financial systems and processes, focusing on the delivery of services through the internet. The discussion begins with digital transformation and moves through various relevant topics including Web 3, tokenization, fintech, digital finance, decentralized finance, and the advent of neobanking.

Digital transformation is defined as the application of digital technologies to transform business processes and generate revenue. It begins with innovation and involves the digitization of processes, leading to digitalization where robotic process automation is introduced. This transformation creates new business models and revenue streams, differentiating it from mere digitization.

The speaker emphasized the role of blockchain as a fundamental technology for fintech, capable of integrating with various technologies such as artificial intelligence, the metaverse, drones, and robots. Blockchain is positioned as a crucial platform for financial transactions.

Internet delivery systems are highlighted, focusing on the Internet of Ideas, the Internet of Data, the Internet of Things, and the Internet of People. The Internet of Behavior is also discussed, emphasizing the importance of understanding user behavior to simplify solutions and enhance user experience.

Ethics in the digital world is another key topic, categorized into physical domain ethics, cognitive domain ethics, and information domain ethics. These intersect to form computational ethics, robotic machine ethics, and ICT ethics, collectively termed digital ethics. The importance of digital jurisprudence, which involves understanding digital laws and regulations, is stressed for those working with digital technologies.

The transition from Web 1.0 to Web 3.0 is explained, illustrating the evolution from information economy to platform economy, and now to the ownership economy enabled by Web 3.0. This progression highlights the increasing interactivity and integration of technologies in delivering financial services. The discussion focused on Neo banking and traditional banking approaches. Neo banks, unlike traditional banks, operate digitally from back to front, offering financial solutions primarily through digital channels. In India, existing banks are adopting digital formats under Reserve Bank licenses, while pure Neo banks operate without physical branches, leveraging innovative cost-effective technologies like

Software as a Service (SaaS). Neo banks also facilitate non-banking operations like transaction and management services. Globally, Neo banking is growing, with India and Brazil leading in customer adoption. Neo banking aims for seamless digital integration across financial services, enhancing accessibility and efficiency beyond traditional banking methods. Additionally, tokenization of physical assets like storage facilities through blockchain technology enables fragmented ownership, democratizing asset management and value creation.

Dr. Basu discussed the fragmented state of fintech globally, highlighting that while mobile and digital payment systems have made transactions easier and more secure, fintech remains largely soloed, lacking integration across financial systems. He argued for interconnected fintech solutions to enhance efficiency and accessibility. In countries like India, digital identity systems have facilitated millions of new bank accounts, promoting financial habits like saving and insurance. However, widespread integration is lacking, hindering the potential benefits of digital finance. The speaker propose a vision of a fully integrated financial ecosystem supported by blockchain technology, enabling seamless asset tokenization and smart contracts. This integrated system aims to reduce barriers, enhance financial inclusion, and improve risk management globally.

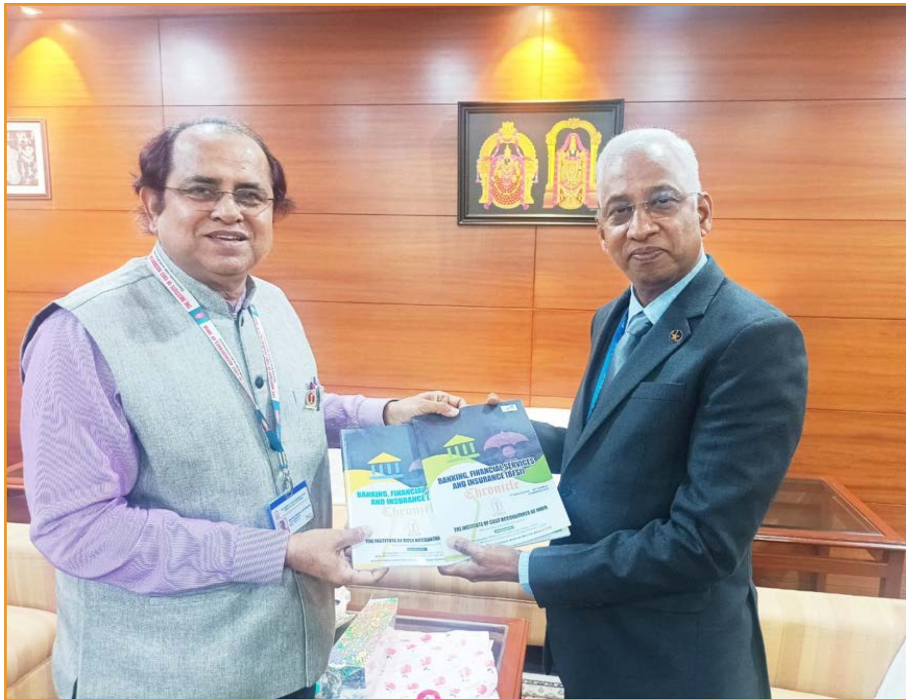
In summary, the eminent speaker explored the transformative impact of digital technologies on financial systems, emphasizing innovation, ethical considerations, and the integration of various advanced technologies to create efficient and user-centric financial services.

After a successful question answer session the webinar was wrapped up by vote of thanks by CMA Dibbendu Roy, Additional Director, and HoD, BFSIB.

SNAPSHOTS

Release of Second Edition of "Aide Memoire on Infrastructure Financing" on 28thMarch, 2024 at New Delhi by BFSIB of ICMAI at the hands of Dr. Manoj Govil, IAS, Secretary, Ministry of Corporate Affairs, Government of India (centre) ,Shri Inder Singh Dhariwal, Joint Secretary, Ministry of Corporate Affairs and Government Nominee, ICMAI (right of Dr.Govil),CMA Ashwin G. Dalwadi, President, ICMAI (immediate left of Dr.Govil), CMA Bibhuti Bhusan Nayak, Vice President, ICMAI (left of President, ICMAI), and other Council Members, ICMAI were also present.

CMA Neeraj Dhananjay Joshi, Chairman, Management Accounting Committee & Cost Accounting Standards Board and Council Member, ICMAI (extreme right) flanked with CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI (centre) felicitating Shri Rohit Rishi, Executive Director, Bank of Maharashtra (extreme left) at Pune on 2nd April, 2024.



CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI with Shri M. Karthikeyan, ED, Bank of India at his Office at BKC, Mumbai on 3rd April, 2024 (L to R).

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI with Millet Mom of India Mrs. Sharmila Oswal at her place on 4th April, 2024 (L to R).

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI (2nd from right) along with CMA T C A Srinivasa Prasad, Council Member is accompanied (extreme left) with CMA Praveen Kumar, Regional Council Member, SIRC, ICMAI (extreme right) felicitating Shri Venkatraman Venkateswaran, Group President & Chief Financial Officer, The Federal Bank Ltd. (2nd from left) on 15th April, 2024 at Cochin.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI (2nd from right) along with CMA T C A Srinivasa Prasad, Council Member is accompanied (2nd from left) with CMA Praveen Kumar, Regional Council Member, SIRC, ICMAI (extreme right) having a meeting with Shri V. P. Nandkumar, MD & CEO, Manappuram Finance Ltd. (extreme left) on 16th April, 2024 at Thrissur.

CMA Chittaranjan Chattopadhyay Chairman, BFSIB & IAASB and Council Member, ICMAI (extreme right) briefing the activities of the BFSIB with CMAs who are employees of the Manappuram Finance Ltd. on 16th April, 2024 at Thrissur.

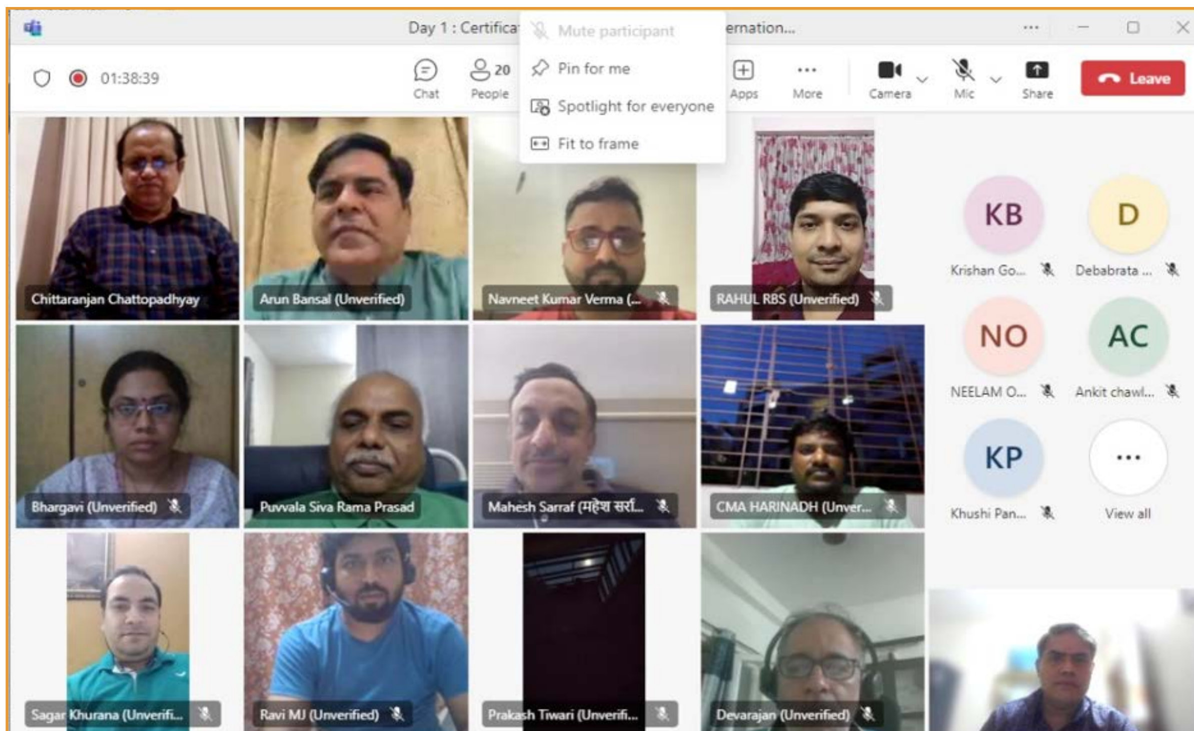
CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI (extreme left) along with CMA T C A Srinivasa Prasad, Council Member (2nd from left) had a meeting with Ms. Kavitha Raveendran, CFO of Dhanlaxmi Bank (2nd from right) along with CMA Abhilash R., Chief Risk Officer, Dhanlaxmi Bank (extreme right) on 17th April, 2024 at Thrissur.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI (centre) along with CMA R K Jain, Joint Director & HOD (CAT), ICMAI (extreme left) had a meeting with Dr. Suhas Deshmukh, Director, NCVET (extreme right) on 29th April, 2024.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI (centre) along with CMA Avijit Goswami, Chairman, Members' Facilities Committee & PSU Coordination Board and Council Member, ICMAI (extreme right) had a meeting with Shri Pradeep Kumar Rangi, Chief Risk Officer, Payments Bank, (extreme left) on 18th May, 2024.

Shri Subhendu Bhattacharya, GM, RBI felicitated by CMA M. K. Anand, Chairman, PD &CPD Committee and CMA Chittaranjan Chattopadhyay, Chairman, BFSIB on 6th June,2024 at RBI Office, Mumbai.

CMA M. K. Anand, Chairman, PD &CPD Committee (extreme right) and CMA Chittaranjan Chattopadhyay, Chairman, BFSIB (2nd from right) for ESG discussion at RBI Office with Shri Sunil T. S. Nair, CGM Sustainable Finance Group, Department of Regulation, RBI (centre) and CMA (Dr.) P.Siva Rama Prasad, Former AGM of SBI (2nd from left) on 6th June, 2024.



Certificate Course on Treasury and International Banking (8th Batch) Inauguration with Shri Arun Bansal, ED, Head Treasury, IDBI Bank on 16th June, 2024.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB & IAASB and Council Member, ICMAI and presented a copy of Handbook on Aide Memoire on Infrastructure Financing (2nd enlarged revised edition) to Shri Burzin Dubash Senior VP of IIA India on 21st June, 2024. (R to L)

Aide Memoire on INFRASTRUCTURE FINANCING

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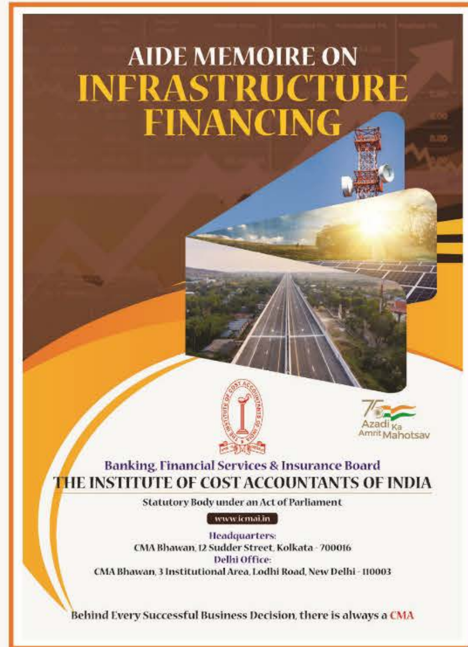
A Robust Infrastructure Finance mechanism therefore assumes utmost importance in the entire Eco system.



Synopsis-Salient Features of the book

- A one stop, single reference point, in the niche area of Infrastructure Finance.
- The book covers the basic theoretical concepts as also the real nitty gritty of processes & procedures and nuances involved in Infrastructure Finance with all the relevant topics which inter include the following:-
  - Definition of Infrastructure sector-Harmonised master list of infrastructure sub -sectors, as notified by Department of Economic Affairs, Ministry of Finance, Definition under Companies Act 2013 and under Income Tax Act 1961.
  - Elements of Financing Infrastructure.
  - Types of Public Private Partnership (PPP) models.
  - Formation of the Special Purpose Vehicle (SPV) and Key project documents/structure for Infrastructure Finance.
  - Financing mechanism consortium/syndication.
  - Credit appraisal process-covering management appraisal, economic appraisal, marketing appraisal, technical appraisal and Financial appraisal.
  - In depth analysis of cost of project and means of finance with specific reference to Infrastructure projects, including interest during construction (IDC), Debt Service Reserve Account (DSRA) etc.
  - Key performance indicators including financial indicators and non financial indicators. This includes detailed discussion on all financial ratios for long term funding like DSCR, IRR, BEP and concepts like ESG compliances.
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  - Detailed Case studies on the following projects
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  - Methodology for pricing of loans
  - Preventive vigilance

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Warm regards

CMA Chittaranjan Chattopadhyay

Chairman

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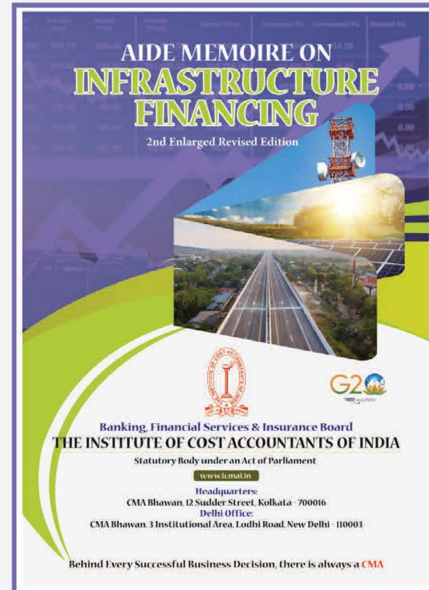

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  - Methodology for pricing of loans
  - Preventive vigilance
- Ethused by the overwhelming response and positive feedback to first edition of the book, the second enlarged and revised edition covers additional contemporary topics on
- 'ESG and Sustainable Finance' and
- 'Urban Infrastructure', besides additional sections on other relevant issues of infrastructure.

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

ICMAI
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Banking, Financial Services & Insurance Board

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

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 April, 2024 to June, 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 for various posts in Indian Bank
- CMA Firms are eligible for conducting concurrent audit/revenue audit of Dakshin Bihar Gramin Bank owned by Government of India and sponsored by Punjab National Bank of all branches/CCHC/H.O.Departments.
- CMA Firms are eligible for Stock Audit of UCO Bank
- CMA Firms are eligible for Concurrent Audit of IIFCL
- CMAs are eligible for recruitment of Officer Grade-A (Assistant Manager) of IFSCA

B. Certificate Courses on Banking

The 10th batch of the Certificate Course on Concurrent Audit of Banks started from 20th April, 2024. Shri Y. Sathyanarayana Prasad, Former General Manager, Management Audit, State Bank of India and Chief Credit Manager & Business Head (Advances), Coastal Bank was the Chief Guest.

The admission for the 11th batch of the Certificate Course on Concurrent Audit of Banks 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 last date of admission for the 8th batch of the Certificate Course on Treasury and International Banking was till 16th June, 2024. The admission for the 10th Batch of the Certificate Course on Credit Management of Banks has also started. The link for admission is stated as follows:

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

The expression of interest for the 11th batch of the Certificate Course on Concurrent Audit of Banks has also started.

We request the members to enroll for the courses for professional development and capacity building.

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

The BFSI Board in association with the NSE Academy for the Certificate Course on Investment Management for the Level-2 titled Mutual Funds and Market Analysis with Fundamentals commenced from 6th April, 2024 and concluded on 1st June, 2024. The admission for the Financial Derivatives & it's application (Level-3) is presently going on. The admission window is stated as follows:

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

D. Investment Month

Joint Event with Indian Chambers of Commerce held on 9th March, 2024

The BFSI Board, ICMAI in collaboration with the Indian Chambers of Commerce observed the Investment Month by organizing the 15th ICC MUTUAL FUND Summit 2024 at The Lalit Great Eastern, Kolkata on 9th March, 2024. The doyens of the Mutual Fund Industry graced the occasion and the thought provoking discussion with threadbare analysis was done in various technical sessions. The members of the Institute joined in large numbers.

E. Release of the 16th issue of the BFSI Chronicle

The BFSI in it's 14th Board Meeting released the 16th issue of the BFSI Chronicle on 22nd March, 2024. It comprises of various articles in Banking, Financial Services and Insurance Sector. It also includes the activities of the BFSI Department and it can be viewed as per the following link:

https://icmai.in/Banking_Insurance/

F. Release of the Aide Memoire on Infrastructure Financing (2nd Revised and Enlarged Edition)

The publication on Aide Memoire on Infrastructure Financing (2nd Revised and Enlarged Edition) was released on 28th March, 2024 at New Delhi by Dr Manoj Govil, IAS, Secretary , Ministry of Corporate Affairs, in the presence of Sri Inder Singh Dhariwal , Jt Secretary , MCA and Government Nominee of the Council and all the Council Members in presence of Secretary, ICMAI.

G. Webinars

The BFSI Board hosted the following webinars for knowledge enhancement of the members and students:

a) **Analysis of Monetary Policy Statement 2024-25** was hosted on 12th April, 2024 from 4 to 6 pm. Shri Govind Gurnani, Former AGM, RBI was the Speaker.

b) **Responsible Financing** was hosted on 19th April, 2024 from 4 to 6 pm. CMA (Dr.) P Siva Rama Prasad, Former AGM, State Bank of India was the Speaker.

c) **Basel III & IV:** Norms for Resilience of Banking Sector was hosted on 26th April, 2024 from 2 to 4 pm. Shri Govind Gurnani, Former AGM, RBI was the Speaker.

d) **Corporate Governance for Insurers-IRDAI Guidelines 2024:** CMA (Dr.) S. K. Gupta, MD, ICMAI Registered Valuers Organization, CEO, ICMAI Social Auditors Organization, COO, ICMAI International ADR Chamber was the Speaker which was held on 3rd May, 2024.

e) **Regulatory Responses to the Global Financial Crisis:** CMA (Dr.) P Siva Rama Prasad, Former AGM, State Bank of India was the Speaker which was held on 10th May, 2024.

f) **IFRS 9 -Proposed Expected Credit Loss Framework for Banking Sector:** Shri Govind Gurnani, Former AGM, RBI was the Speaker which was held on 17th May, 2024.

g) **Finance to Farmer Producer Organisations (FPOs) by Banks:** CMA (Dr.) Sreehari Chava, Practicing Cost Accountant was the Guest of Honour and CMA (Dr.) Puvvala Siva Rama Prasad, Former AGM, SBI was the Speaker which was held on 22nd May, 2024.

H. Meeting with dignitaries

a) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and Council Member, ICMAI along with CMA T C A Srinivasa Prasad, Council Member along with CMA Praveen Kumar, Regional Council Member, SIRC, ICMAI met Shri Venkatraman Venkateswaran, Group President & Chief Financial Officer, The Federal Bank Ltd. on 15th April, 2024 at Cochin.

b) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and Council Member, ICMAI along with CMA T C A Srinivasa Prasad, Council Member along with CMA Praveen Kumar, Regional Council Member, SIRC, ICMAI had a meeting with Shri V.P.Nandkumar , MD & CEO, Manappuram Finance Ltd..on 16th April, 2024 at Thrissur.

c) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and Council Member, ICMAI along with CMA T C A Srinivasa Prasad, Council Member had a meeting with Ms.Kavitha Raveendran, CFO of Dhanalaxmi Bank along with CMA Abhilash R., Chief Risk Officer, Dhanalaxmi Bank on 17th April, 2024 at Thrissur.

d) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB met Dr. Suhas Deshmukh, Director (Div.3), National Council for Vocational Education and Training on 30th April, 2024.

e) CMA Chittaranjan Chattopadhyay, Chairman, BFSIB along with CMA Avijit Goswami, Council Member, ICMAI met Shri Pradeep Kumar Rangi, Chief Risk Officer, Risk, Airtel Payments Bank on 18th May, 2024.

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

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Certificate Course on Credit Management of Banks

About The Institute

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

International Affiliation

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

Institute's Strength

The Institute is the 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.

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

- ✓ **Analysis of Financial Statements (Module 2)**
  - o Analysis of Financial Statements: Classification of Assets & Liabilities, Current Assets, Fixed Assets, Non-current Assets, Intangible & Fictitious Assets, Liabilities - Current Liabilities, Medium & Term Liabilities, Capital & Reserve, Classification of Current Assets & Current Liabilities, Balance Sheet Analysis
  - o Analysis of Profit & Loss Account, Auditor's Note
  - o Ratio Analysis - Classification of Ratios, Liquidity Ratios, Leverage Ratios, Activity Ratios, Profitability Ratios, Interpretation of important Financial Ratios, Fund Flow Statements and Cash Flow Statements
  - o Project / Term Loan Appraisal: Technical Appraisal, Commercial / Market Appraisal, Managerial Appraisal, Financial Appraisal, Economic Appraisal, Environmental Appraisal, Project Cost & Means of Finance, Cost of Production & Profitability, Sensitivity Analysis, Break-even Analysis, Capital Budgeting - Pay Back Period Method, Time Value Money, Net Present Value, Internal Rate of Return, Life of the Project.

- ✓ **Working Capital Management (Module 3)**
  - o Working Capital Assessment: Concept of Working Capital, Gross Working Capital, Net Working Capital, Working Capital Gap, Components of Working Capital, Source of Working Capital, Operating / Working Cycle, Various Methods of Assessment of Working Capital, Computation of Working Capital - Turnover Method, MPBF Method, Cash Budget System, Analysis of CMA Data
  - o Quasi Credit Facilities: Advantages of Non-Fund Facilities, Various types of NFB Facilities, Various types Letter of Credits, Assessment of LC limits, Bills Purchase / Discounting under LC
  - o Various types of Bank Guarantees: Performance Guarantee, Financial Guarantees, Deferred Payment Guarantees, Types of Performance and Financial Guarantees, Assessment of Bank Guarantees Limit, Period of Claim under Guarantee

- ✓ **Other Credits (Module 4)**
  - o Export Finance: Pre-Shipment Finance-Export Packing Credit in Rupees, Pre-Shipment Credit in Foreign Currency (PCFC), Post Shipment Rupee Export Finance, Purchase / Discount of Export Bills, Negotiation of Export Bills, ECGC Whole Turnover Post-Shipment Guarantee Scheme.

- ✓ **Monitoring, Supervision & follow up and Management of Impaired Assets (Module 5)**
  - o Documentation: Meaning, Importance, Types of documents, Requisites of documentation, Stamping of different documents, Mode and time of Stamping, Remedy for un-stamped / under-stamped documents, Documents of which registration is compulsory, Time limit of registration, Consequence of non-registration, Execution, Mode of Execution by different executants, Period of Limitation, Law of Limitation to Guarantor, Extension of period of limitation.

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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Banking, Financial Services & Insurance Board

CERTIFICATE COURSE ON CONCURRENT AUDIT OF BANKS

BROCHURE

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Course Objective

The Banking, Financial Services and Insurance Board is pleased to offer **Certificate Course** on **"Concurrent Audit of Banks"** for Officials of Regional Rural Banks and Small Finance Banks to enable participants to understand the intricacies of Concurrent Audit of Banks.

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

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

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

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

Course Eligibility

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

Course Duration

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

Course Fees

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

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

Examination

Rs. 750 plus GST per attempt.

Certificate Course on Concurrent Audit of Banks

Detailed Course Content

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

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

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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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.**

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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.

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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 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.

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

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

BROCHURE

ONLINE
CERTIFICATE COURSE IN

GENERAL INSURANCE

IN ASSOCIATION WITH

NATIONAL INSURANCE ACADEMY

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Institute's Strength

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Vision Statement

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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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Certificate Course in General Insurance in association with National Insurance Academy

NATIONAL INSURANCE ACADEMY, PUNE

PROFESSIONAL CERTIFICATION IN GENERAL INSURANCE (LEVEL-1)

CURRICULUM FOR THE COURSE (TOTAL DURATION IS 25 HOURS)

MODULE - I

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

MODULE - II

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

MODULE - III

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

MODULE - IV

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  - ✓ BASICS OF LIABILITY
  - ✓ LIABILITY INSURANCE PRODUCTS
  - ✓ BURGLARY AND PERSONAL ACCIDENT
  - ✓ CLAIMS INTIMATION AND NECESSARY FOLLOW UP

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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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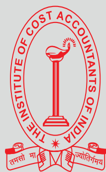
ONLINE
CERTIFICATE COURSE IN
INVESTMENT MANAGEMENT
(With Exclusive Hands on Trading in NSMART Lab)



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Certificate Course in Investment Management

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About NSE Academy

"NSE Academy Limited is a wholly owned subsidiary of the National Stock Exchange of India Limited (NSE). NSE Academy Limited enables the next generation of BFSI and FinTech professionals with industry-aligned skills – through capacity building programs and certification courses, powered by an online examination and certification system. The courses are well-researched and carefully crafted with inputs from the industry professional. NSE Academy Limited works closely with reputed universities and institutions across India in building a competent workforce for the future of BFSI and FinTech. NSE Academy Limited also promotes financial literacy as an essential life skill among youngsters – a contribution towards financial inclusion and wellbeing.

For more information visit: *https://www.nseindia.com/"*

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

Certificate Course in Investment Management

ONLINE CERTIFICATE COURSE IN INVESTMENT MANAGEMENT

(With Exclusive Hands on Trading in NSMART Lab)

Course Objective

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

Course Outline

The course is divided into **3 levels.** Each level can be taken separately and completed based on the needs and priorities of the participants. The contact classes and hands on practice time for **Level 1** will be **20 hours** and **Level 2** and **Level 3** will be **30 hours** each. All three levels put together aim at providing a holistic view of investment management and help in preparing for different roles offered by capital market intermediaries.

Fundamental Analysis & Valuations: 20 hrs – Level 1

Course Outline:
- Fundamental Analysis: An Introduction
- Brushing the basics
- Understanding Financial Statements
- Valuation Methodologies

Mutual Fund and Market Analysis with Technical: 30 hrs – Level 2

Mutual Fund
- Investment Landscape in India
- Concept and Role of Mutual Funds
- Legal Structure and Regulatory Framework
- Mutual Fund Offer Documents
- Channel Management Practices
- Valuation and Taxation
- Investor Services
- Mutual Fund Scheme Selection

Technical Analysis
- Introduction To Technical Analysis
- Candle Charts
- Pattern Study
- Major Indicators & Oscillators Trading Strategies
- Dow Theory and Elliot Wave Theory
- Trading Psychology and Risk Management
- Hand on session covering above topics

Financial Derivatives & its application: 30 hrs – Level 3

- Basics of Derivatives
- Understanding Index
- Introduction to Forwards, Futures and Options
- Option Trading Strategies and Systems
- Clearing and Settlement
- Legal and Regulatory Framework
- Taxation and Sales Practices
- Investor Protection Services
- Hands on session: Building derivative strategies & execution

Eligibility

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

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

Certificate Course in Investment Management

Course Fees

Module	Level 1	Level 2	Level 3
Course Name	Fundamental Analysis & Valuations	Mutual Fund and Market Analysis with Technical	Financial Derivatives & its application
Training hours per batch	20	30	30
Add-ons	NKH	NKH & NSMART	NKH & NSMART
Mode of Delivery	Online	Online	Online
Total Course Fees (including GST) per candidate	₹4791	₹6844	₹8213

Key Features

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

Assessment for Each Level

- Attendance - with weightage of 30%
- Quiz - with weightage of 30%
- Assignment - with weightage of 40%

Also, the program will be on webex 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

For more details

Course Coordinator from BFSI Department

CMA Dibbendu Roy - Additional Director, HoD & Secretary, BFSIB
E-mail: *bfsi@icmai.in* ; **Mobile:** 96434-43047
&
Mr. Vishwajeet Banick
E-mail: *vbanick@nse.co.in* ; **Mobile:** 98314-99052

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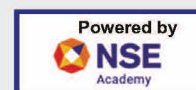

NSE ACADEMY
www.nseindia.com
NSE Academy

National Stock Exchange of India Ltd.
1st Floor, Park View Apartments
99, Rash Behari Avenue
Kolkata - 700 029

4

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FINANCIAL SNIPPETS

- Small Finance Banks to become Universal Banks
- RBI sets up draft norms for web aggregators of loan products
- Gold reserves kept in domestic markets rose to 40 percent in 5 years
- RBI directs Banks to refund borrowers incases of overcharging
- Buyback of G-Secs worth Rs. 40000 crore by RBI
- Guidance note for Banks and NBFC is updated by RBI
- Canara Banks bottomline rises by 18 percent on year-on-year
- Indian Bank profits rises by 55 percent in last quarter of 2023-24
- Home loan has outstanding worth of Rs. 10 lakh crore in last two years
- The share of credit in industry shrinks by 23 percent in FY 2023-24
- Stock Exchange to administer the activities of research analysts as per SEBI
- Mutual Fund assets grew by 35 percent in the FY 2023-24
- 1.3 crore investor accounts are on hold due to incomplete KYC
- Imposition of Rs. 60.3 lakh fine on five cooperative Banks by RBI
- Capital Gains tax is exempted for shares given as gifts
- IRDAI ensures the insurers for fair commission to agents
- Gram Panchayats under the lie and health cover done by IRDAI
- IRDAI Bima Vistar priced at Rs. 1500 per head
- Health Insurance age restriction is abolished by IRDAI incase of health policies
- ICICI Lombard General posts more than 18.9 percent in bottom line in FY 2023-24
- Life Insurers' new business premium grows 61 percent
- Premium of Life Insurers' for the first year grew by 2 percent
- LIC emerges as the strongest insurance brand by Brand Finance Insurance 100 2024
- Insurance sector received Rs. 54,000 crore in FDI in last 9 years

BFSI QUIZCOMPETITION

Question 1:

Which of the following is a primary objective of a concurrent audit in banks?

A) To verify the accuracy of annual financial statements

B) To ensure timely detection and rectification of irregularities

C) To prepare the bank's budget

D) To assess the bank's long-term strategic goals

Question 2:

Concurrent audits in banks are typically performed by:

A) Internal auditors only

B) External auditors only

C) A combination of internal and external auditors

D) Regulatory bodies

Question 3:

Which of the following areas is NOT typically covered under a concurrent audit of a bank?

A) Loan disbursements

B) Cash transactions

C) Marketing strategies

D) Foreign exchange transactions

Question 4:

Which of the following statements best describes the role of a concurrent auditor in ensuring compliance with Basel III norms?

A) Concurrent auditors focus exclusively on operational risk management under Basel III.

B) Concurrent auditors ensure that the bank's capital adequacy ratios are maintained as per Basel III requirements.

C) Concurrent auditors are responsible for implementing Basel III norms within the bank.

D) Concurrent auditors verify the bank's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as per Basel III guidelines.

Question 5:

In the context of a concurrent audit, which of the following is a key focus area when auditing trade finance operations?

A) Verification of cash flow statements

B) Compliance with anti-money laundering (AML) regulations

C) Review of employee performance appraisals

D) Examination of fixed asset registers

Question 6:

What is the primary responsibility of a concurrent auditor concerning the bank's credit portfolio?

A) To design new credit products

B) To evaluate the creditworthiness of new loan applicants

C) To monitor adherence to the bank's credit policies and procedures

D) To approve all loan disbursements

Question 7:

When conducting a concurrent audit of a bank's IT systems, what is a critical area of focus?

A) Verification of physical security measures

B) Assessment of data integrity and cybersecurity measures

C) Evaluation of customer service quality

D) Review of marketing strategies for IT products

Question 8:

Which of the following instruments is typically used in the interbank market to manage short-term liquidity mismatches?

A) Foreign exchange swaps

B) Long-term bonds

C) Commercial paper

D) Equity shares

Question 9:

What is the primary purpose of a bank's treasury function?

A) To maximize loan disbursements

B) To manage the bank's liquidity, funding, and interest rate risks

C) To oversee the bank's marketing strategies

D) To handle customer service issues

Question 10:

In international banking, what is the main advantage of using a Letter of Credit (LC) for trade transactions?

A) It reduces the need for collateral

B) It provides a guarantee of payment to the seller from the buyer's bank

C) It eliminates foreign exchange risk

D) It reduces transaction costs significantly

The names of first 3 participants giving correct responses will be declared in the ensuing Chronicle.
The responses may be sent to bfsi@icmai.in

CORRECT ANSWERS OF PREVIOUS QUIZ:

1. Asian Development Bank
2. Agriculture
3. 6.3%
4. 2.1%
5. PNB
6. 3-15%
7. Minimum reserve system
8. 50 crores
9. SDR
10. 2 trillion

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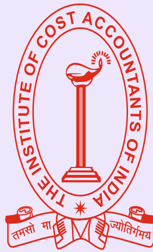

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