BANKING FINANCIAL SERVICES AND INSURANCE (BFSI)

CHRONICLE

2nd VOLUME - JULY 2020

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body under an Act of Parliament)

www.icmai.in

Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016

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

Behind every successful business decision, there is always a CMA

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

VISION STATEMENT

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

ABOUT THE INSTITUTE

The Institute of Cost Accountants of India is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrols students for its courses, provides coaching facilities to the students, organises professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants are increasingly contributing toward the management of scarce resources and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

After an amendment passed by Parliament of India, the Institute is now renamed as ''The Institute of Cost Accountants of India'' from ''The Institute of Cost and Works Accountants of India''. This step is aimed towards synergising with the global management accounting bodies, sharing the best practices which will be useful to large number of trans-national Indian companies operating from India and abroad to remain competitive. With the current emphasis on management of resources, the specialized knowledge of evaluating operating efficiency and strategic management the professionals are known as ''Cost and Management Accountants (CMAs)''. The Institute is the 2nd largest Cost & Management Accounting body in the world and the largest in Asia, having approximately 5,00,000 students and 85,000 members all over the globe. The Institution headquartered at Kolkata operates through four regional councils at Kolkata, Delhi, Mumbai and Chennai and 107 Chapters situated at important cities in the country as well as 10 Overseas Centres. It is under the administrative control of Ministry of Corporate Affairs, Government of India.

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The Institute of Cost Accountants of India

"Death is not the opposite of life but a part of it" – Haruki Murakami

With deep sorrow and heavy heart I on behalf of Banking, Financial Services and Insurance Committee pay respectful tribute to the departed soul of CMA C.Veeraghavan, Former Dy. Accountant General of C & AG who left us for heavenly abode. CMA Veeraghavan had been a key support to our endeavour in preparing advisories in Insurance Sector. Apart from his very active participation as faculty in the various webinars on Insurance Sector, his contribution for preparation of the Guidance Note on Internal Audit of General Insurance Companies and the Supplementary issue which the Institute brought during the COVID-19 lockdown phase will always fondly be remembered by us. We pay our respect to the bankers who laid down their lives in line of duty amidst COVID-19.

We fondly remember 19th July 1969; the day 14 major banks were nationalized setting in motion an uninterrupted story of National Development.

Banks have suffered considerably since the lock down and there has been a rise in loan defaults and increase in NPAs as people are unable to pay their loan instalments on time. RBI has announced for a moratorium as one of the measures of respite for both the Banks and the Borrowers. The RBI and Government of India are working in tandem to ease hardship of the people of India due to onslaught of COVID-19. India Inc. is also suffering due to labour migration, lack of logistics, raw material shortage, lack of demand and shortage of working capital for payment of recurring charges.

We have seen a push of the Government for various packages to resurrect the economy. We are observing the green shoots with the boosting of capital markets. The Mutual Funds Industry has seen a huge outflow of funds. However, slowly with the unlocking of the economy and with the positive movement of the SENSEX, we hope and trust that during the passage of time the country will make good the loss suffered due to lockdown caused by onslaught of COVID-19. We strongly feel the future is in a better shape under the able leadership of the Honourable Prime Minister. IRDAI has also come out with various advisories for the benefit of the people during these trying times. Our Institute has submitted suggestions on Exposure Draft on Credit Insurance to IRDAI.

Our Honourable Prime Minister's clarion call for Atma Nirvar Bharat and Vocal for local to Global will promote Make in India concept. It is expected that ban on Chinese products would boost the economy and indigenous manufacturing will see a considerable fillip.

The larger picture may be lost in these uncertain times but with structural reforms and better reserves of Banking Sector post amalgamation we see that the systematic shocks will have lesser bearing and the growth pattern will take an upward curve.

Amidst the entire disastrous contour, we are listening to some heartening news about India.

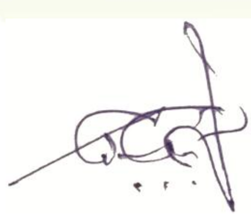
The next 10 years is going to be India's "golden moment" in key sectors like technology, pharmaceutical, e-commerce and manufacturing, and we are optimistic as we have seen an inflow of USD 20 billion foreign direct investment in the country amidst the corona virus outbreak using digital and technology -- whether it's medicine, telemedicine, e-commerce, logistics -- in every segment of the market. Whether it's a kirana (local grocery) shop, everything is going to be digital. It is the golden moment that India should seize. The number of smartphone users (in India) is over 500 million, maybe even close to a billion. The government's push to go digital as a result of the outbreak of covid-19 has taken digital transactions through the roof.

COVID-19 has been forcing the Banking Services go contactless and presence less. Banks are adopting technology to in a robust way to combat onslaught of COVID-19. According to the report FinTech &Digital Banking 2025 (Asia Pacific) by Backbase and IDC, 48% of banks in Asia Pacific (APAC) will leverage Artificial Intelligence (AI) or Machine Learning Technologies by 2025. 60% of Banks in APAC are shaping up their ecosystem by integrating FinTech solutions from Cloud marketplace. In India, 70% of the Tier-I and Tier-II banks will remain regularly access third party data and insights, as they strengthen their efforts around offering personalised customer strategies. COVID-19 has provoked us to find out the opportunities for Indian Banking, Financial Services and Insurance Sector and their strategies including ecosystem partnerships with Fin Techs. While the trend of personalization will grow there is a lot more to the story of digital transformation.

We from the Banking and Insurance Committee have taken the first step in creating a Banking, Financial Services and Insurance (BFSI) Department and we had conducted as on date 23 webinars and 8 WEBINTs. We also had a Webinar with Indian Chamber of Commerce on the topic of Quantitative Easing and Credit Risk. President of the Institute was also a speaker with the doyens of Banking Fraternity. The Institute has also launched three Certificate Courses namely Concurrent Audit on Banks, Credit Management of Banks and Treasury and International Banking to equip the students, members and others in capacity building in this COVID-19 environment through online education.

I request you all to favour us with your suggestions to further our effort for excellence in our endeavour.

Stay Safe.



CMA Chittaranjan Chattopadhyay

From the Desk of BFSI Team

Greetings from BFSI Team !!!

As the BFSI Team gear up to bring out the second edition of the Banking Financial Services & Insurance (BFSI) chronicle the entire country, nay the world is passing through trying times, never seen or felt before owing to the outbreak of covid-19 pandemic which has gripped the world thereby threatening the very existence of mankind. While India has ramped up efforts to contain the spread of the novel corona virus including surveillance and contact tracing, laboratory diagnosis, hospital preparedness, infection prevention and control, and implementation of containment plan, there is still a lot to be done.

Amidst such disappointing scenario prevailing in India, one of the silver linings that deserves mention is that the Indian economy trying to resurrect itself with the overseas investors back in action with substantial injection of funds after being fence sitters for over three months. FII's capital inflow into Indian equities stood at $ 2.87 Billion in June 2020, the highest in this year. This has certainly bolstered the sagging Indian economy as NIFTY, which refers to the 50 most popular large-cap stocks, reclaimed 11000 levels. Thanks to the unprecedented amount of fiscal and monetary stimulus and gradual reopening of economies post lockdown that kept sentiments intact worldwide with Indian markets being a major beneficiary. The Government has provided rupees twenty lakhs crore stimulus package which is equivalent to almost 10% of India's GDP.

Some news that provide hope and optimism in an otherwise sombre and pensive setting is PNB, India's second largest bank, which is set for a huge fund raising by issue of fresh equity shares, Google picking up 7.7% stake in Jio Platforms for about Rs 33,700 crore and with 5G home grown solutions Reliance Industries promises to be a great pick, Karnataka Bank has reported all round improvement in all ratios besides improving net profit by 12% in the Q1 of FY 2020-21, Lakshmi Vilas Bank planning to mop up Rs 1000 crore additional capital and looking to bolster its Capital Adequacy Ratio (CAR) and the merger with Clix Capital which would bring Rs 1900 crore to the bank and about Rs 4,500-4,600 crore as assets, Federal Bank with 1263 branches and 1936 ATMs notching up 10% higher net profit in Q1 of FY 2020-21 and HDFC Life Insurance posting a 5.8% year-on-year increase in Q1 with consolidated net profit of Rs 450.54 crore.

These are indeed news of optimism and positivity.

This issue of BFSI Chronicle carries many interesting articles and we are sure that our esteemed readers would benefit and enrich from these.

Happy reading !

CAPITAL MARKETS

INTEROPERABILITY AMONG CLEARING CORPORATIONS – WHAT IT MEANS TO THE MARKETS?

Subhashruthi.N.J
Analyst PWC, Chennai

CMA (Dr.) Latha Chari
Associate Professor, NISM

Abstract

In November 2018, the Securities and Exchange Board of India (SEBI) put forth a framework for interoperability among clearing corporations. This move assumes enormous significance in light of cost and operational efficiencies it can bring into the functioning of the stock exchanges and the respective Clearing Corporations. This article highlights the functioning of the interoperability framework, discusses the general advantages and disadvantages in an arrangement and also presents some global trends in interoperability. The article concludes by suggesting that the exchanges should be watchful of the interdependency risks, while keeping in mind the potential benefits of the interdependent framework.

Role of Clearing Corporation

Stock exchanges facilitate trading and exchange of financial securities. The process of buying or selling a security involves typically three steps namely trading (ie buy or sell security), Clearing and Settlement. The stock exchange provides the screen based platform for trading and sets up the rules for order matching and trading through the exchange. Orders are generally put to the exchange by a registered trading member or stock broker. The Clearing corporation is responsible for clearing and settlement of trade. The Stock Exchanges and Clearing Corporation Regulations, 2012 (SECC) mandated setting up of Clearing Corporations (CCPs) as a legal entity, separate from the stock exchange, for the purpose of clearing and settling of trades. Section 2(d) of the Securities Contracts (Regulation)(Stock Exchanges and Clearing Corporations) Regulations, 2018 defines clearing corporation as " entity that is established to undertake the activity of clearing and settlement of trades in securities or other instruments or products that are dealt with or traded on a recognized stock exchange and includes a clearinghouse". Further Section 2(e) of the same act defines a Clearing member as a person having clearing rights in any recognised clearing corporation. Clearing is process of determining the net obligations ie. payments and delivery by a clearing member after the days trade is done and getting confirmations from them. The process of settlement involves actual transfer of funds and securities between the buyer and seller of the security, thus completing the trading process for a financial security. In Indian markets the process of trading, clearing and settlement takes place over a period of 2 days from the date of execution of trade, commonly known as t+2 rolling settlement.

In compliance with the SECC regulations, the three stock exchanges (BSE, NSE and MSEI) haveestablished their respective CCPs through the subsidiary route, which is responsible for clearing and settlement of the trades executed on their parent stock exchanges. Further, the clearing corporations also act as a central counter party to both the buyer and seller in each of the trade that takes place on the exchange platform and guarantee settlement of trade. This is known as the principle of novation. Additionally, in order to ensure that there is minimum default by the clearing members in any trade executed on the exchange platform, the clearing corporation puts into place robust risk management system and surveillance systems. Under this model of trading, clearing and settlement, the market participants have to obtain membership of a particular stock exchange and its CCP, thereby practically locking-in the trading, clearing and settlement activities in a closed group of related entities. A market participant is also required to take membership of another closed group of related entities to access another trading platform. Thus in order to trade through different exchange platforms, the market participant will have to make multiple deployments of margin and capital resources separately at the three stock exchanges/ CCPs, which leads to suboptimal utilization of these resources, thereby increasing costs for the market participants.

Meaning of Interoperability of Clearing Corporation

Interoperability is an arrangement where the clearing corporation can clear and settle trades executed in any of the exchanges. In other words, the market participants can choose the clearing corporation through which their trades can be settled irrespective of the exchange where trade is executed. Under CC Interoperability, a Clearing Member may maintain association with a single clearing corporation. The trades executed on multiple exchanges can be consolidated into a single Clearing Corporation for the clearing member and there will not be a strict one-to-one association of exchanges and clearing corporations.

With the objective of addressing the suboptimal utilization of margin and capital resources in the securities market, containing systemic risks and improving efficiency of stock trading, the Securities and Exchange Board of India (SEBI) proposed to link the Clearing Corporations (CCPs) and allow market participants to consolidate their clearing and settlement function at a single CCP. The Securities and Exchange Board of India (SEBI) on November 27, 2018, had laid down the broad guidelines for operationalising the interoperable framework among clearing corporations, which were required to be adhered to and operationalised by stock exchanges and clearing corporations. The framework was finally implemented on June 03, 2019, marking the entry of India into the league of global hi-tech interconnected markets. This is one of the biggest changes in the history of Indian Stock Exchanges since the introduction of dematerialised settlements and derivatives trading through exchanges in the early 2000s.

The interoperability arrangement between central counterparties is implemented through either one of the 2 models (i.e) Peer-to-Peer Model or the Participant Model. In the peer-to-peer model special arrangements are made between CCPs where risk management is based on a bilaterally approved framework between CCPs. In the participant model CCPs become each other's members and are subject to the host CCP's participant rules. SEBI has recognised the peer-to-peer model as the preferred model for the interoperability arrangement between the 3 recognised CCPs.

Global Trends in Interoperability

Globally, interoperability was introduced in Europe to address the existing fragmented market structure. Currently the SIX x-clear AG, LCH Ltd and Euro CCP are interlinked in a peer-to-peer model with products such as cash equities and ETFs traded. Furthermore, the CC&G and LCH SA are interlinked for the product

Italian Government Bond (cash and repos). Similarly, in Asia, the Hong Kong Stock Exchange and Shanghai Stock Exchange are connected through a participant link model with an agreement to clear their trades via their local clearing houses. Although there is no interoperability arrangement in the US, the Depository Trust and Clearing Corporation (DTCC) serves as a single point of clearing across exchanges and asset classes. In Brazil a sequence of integration agreements which began in 2000 led to the gradual concentration of the Brazilian stock trading activity in increasingly fewer venues. Prior to 2000, it had nine exchanges and two clearing and settlement providers for equities. In 2000, the stock exchanges of São Paulo and Rio de Janeiro (BVRJ) and seven other Brazilian stock exchanges in other cities in Brazil were integrated and linked together. While interoperability involves cumbersome integration of market infrastructure and processes, cross listing does not involve such integrations of trading practices. Partial integration has been taken by Sub Saharan Africa stock markets in the form of cross-border listing of stocks with resulting financial flows. The JSE Securities Exchange of South Africa has signed a memorandum of understanding (MOU) with Botswana, Egypt, Ghana, Kenya, Namibia, Nigeria and Uganda.

Advantages of Interoperability of CCPs

Interoperability arrangements link different CCPs with each other, thereby providing multilateral netting possibilities. When a trading member takes multiple offsetting positions across different exchanges, they can be netted out and the margin requirements can be reduced and rationalised. This inturn will reduce the cost of operations, the collateral and capital required for trading across different exchanges. Thus the overall cost to settle trades across segments can be reduced.In addition, for exchange-traded products, they allow a small market to access a larger pool of liquidity.

Interoperability of clearing corporations will lead to reduction in compliance costs, and also reduces operational complexity by requiring market participants to transact only with their CCP instead of multiple CCPs.

Finally, another potential benefit of a CCP link is that it could provide the alternative clearing solution of access to a CCP when its clearing members are not willing to onboard new clients

Interoperability will also further drive competition amongst CCPs with the objective of securing a higher market share in clearing and settlement functions. This will in turn lead to enhanced customer services, differentiated offerings and drive the CCPs to innovate and expand their existing scope of services.

Possible disadvantages of Interoperability of CCPs

Interoperability arrangements may generate inter CCP contagion risk arising from inter-CCP exposures and lead to the under-collateralisation of inter-CCP exposures if these are not adequately monitored and margined. They could also create operational risks and additional complexities in the risk management frameworks for CCPs.

Derivative contracts are different in tenure and risk implications from other securities and money market instruments. Specific attention to the risks created due to concentrated large exposures in derivatives will have to be addressed by CCPs' risk management frameworks.Existing literature insinuate that interoperability arrangements for derivatives significantly add on to the complexity of risk management of CCPs

Future Outlook

Oneprimary area of concern relates to managing derivative position risk, when large postions are held by few market participants. Also there can be risks arising from the complex interactions between the recovery and resolution processes of interoperable CCPs. A method of bringing out the entanglements and risks of interoperability arrangements is to consider the prudent features of a suitable recovery and resolution framework. One way to design a CCP recovery and resolution framework would be to ring-fence linked CCPs from any losses incurred by other CCPs. Another way to design a CCP recovery and resolution framework would be to treat interoperable CCPs as separate in good health, but joint in recovery.

In conclusion, it can be said that implementation of interoperability among the clearing corporations will help reduce the costs for market participants and improve efficiency. However, at the same time, it is important to be watchful of the possibility of enhanced risks that may arise due to interdependencies of CCP.

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Disclaimer: All the views expressed in the article are personal

NBFC

NBFC CRISIS & RBI DILEMMA – "TO REPAIR A BROKEN TAP, OR TO FIX A FAULTY PIPE, THAT IS THE QUESTION"

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

A Non Banking Financial Company (NBFC) is a company whose primary business is to lend loans and advances to the often credit starved sections of the society. The sector consists of two categories of companies, ones that can accept deposits from the public and ones that cannot. It is further classified as per the type of lending it facilitates - from housing, infrastructure to auto loan or lending for business, small venture.

NBFC sector has created enormous wealth over the last decade but has been under the weather over the last two years and more so in the current covid environment.

What ails the NBFC sector?

Asset Liability Management (ALM): As the NBFC sector became riddled with instances of default by some of the major players in the sector, most commercial banks preferred parking excess liquidity available with them with the RBI rather than lending it forward. NBFCs in turn, decided to reduce their dependence on the lines of credit extended by banks and began approaching the market with instruments like Commercial Paper (CP) for procuring funds. A major area of concern for the NBFC then became Asset Liability Management (ALM). NBFCs began borrowing for the short term and lending for a longer term. This led to their own debt maturing faster than the loans advanced by them, thus creating a liquidity crisis. In order to check the same, in November of 2019, RBI introduced new and tighter liquidity norms for the sector. However, these norms only added to the worries of the NBFCs, who were struggling to maintain even operational liquidity.

Unsecured Lending: In March 2020, CRISIL reported that the unsecured loan portfolio of NBFCs had grown by 25% for the fiscal 2019-20, contributing to a CAGR of 30% over the last five years. According to the FIDC, "The risk for asset based lenders is different than the one for those who are only into lending. There is a need to differentiate between the two, in order to gauge the risk in the sector." Moreover, given the Indian context, when it comes to payment hierarchy, payment obligations for housing are a priority for Indian borrowers and more so if the borrower treats the same as a residential property. Then, payment of debt for vehicles is settled and unsecured payment obligations like credit card dues are settled at the very end by a borrower.

In December of 2019, RBI released its financial stability report that drew a gloomy picture for the sector. The Gross NPA ratio of the NBFC sector had increased to 6.3% in the September of 2019, whereas the Net NPA ratio stood at 3.4%. These figures had stood at 4.1% and 2.5% respectively, in the March of 2015. The CRAR (Capital to Risk Assets Ratio or Capital Adequacy Ratio), which measures how capitalised a bank in order to withstand risk, also came down to 19.5%, showing a consecutive downtrend since March of 2015, when it stood at 26.2%. According to the stress test done by the RBI in the aforementioned report, a further increase in GNPA by about 3 Standard deviation could lead to CRAR falling further to 15.1%. It is estimated that around 14.2% of the NBFCs will not be able to comply with the minimum regulatory CRAR, in such a case. Thus, the NBFC sector entered the COVID-19 crisis in a vulnerable state.

The impact of the pandemic

As the pandemic of COVID-19 swept across the world, many nations went into lockdown in order to contain the spread of the virus. In March, about two-thirds of the Indian economy ceased operations completely.However, the non-linearity of the pandemic creates more uncertainty and there may be downward revision to this estimate in the future. The slowing down of the economy is reflected in rating actions with downgrades outnumbering upgrades in the second half of fiscal 2020.

According to Dr. Pronob Sen, the current pandemic has led to a supply side shock, which has the potential to become a demand side shock, if the lockdown persists for few more months. Agreeing with this sentiment, Ms. Renu Kohli opined, "The economy is not operating at full capacity and our concern, once the lockdown ends, will be to shorten the output gap. The output gap is high and so, fears of a recession are more valid than that of inflation. **We won't expect consumers to spend on social outings like movies and travel, until the fear completely subsides**."

The effect of the COVID-19 will be felt for months after the lockdown is lifted. The lockdown and social distancing norms pan India have led to a slowdown in generation of new business in the banking sector. Collections had fallen to 10% m-o-m, even before the moratorium had been announced. Small businesses, which form a significant portion of the clientele of NBFCs are going to suffer heavy losses owing to mounting fixed costs, supply chain disruption and subdued demand. They could very well turn out to be future NPAs of the sector.

A leap in the right direction

In order to provide some relief to the borrowers, the **Reserve Bank of India (RBI) also announced a three month moratorium on debt repayment**. As per the norms, NBFCs will grant moratoriums to their borrowers, however there is some uncertainty regarding the availability of the same for the borrowings undertaken by NBFCs themselves. The problem is further complicated by the fact that a lot of large NBFCs have given loans to smaller NBFCs.

Moreover, even if NBFCs are granted moratorium for the term loans undertaken by them; a moratorium for the borrowings undertaken from the capital market seems unlikely. While the RBI moratorium provides some relief on the assets side, it is on the liabilities side that **challenges could emerge for non-banking financial companies (NBFCs) with high share of capital market borrowings**such as bonds and commercial paper.

The RBI also announced a reduction in the cash reserve ratio of all banks by 100 basis points to 3.0 percent of net demand and time liabilities (NDTL). **This reduction in the CRR would release primary liquidity of about ₹ 1,37,000 crore uniformly across the banking system** in proportion to liabilities of constituents rather than in relation to holdings of excess SLR. Though these measures were meant to encourage banks to lend to NBFCs, many fear that the outcome wouldn't be the one envisioned.

Therefore, in order to further ensure the flow of funds to NBFCs, the RBI came out with another announcement in April 2020, termed as 'TLTRO 2.0'. (**LTRO is a tool in which central bank offers money to banks for a**

specified period at the prevailing repo rate). The RBI decided to conduct a second phase of the TLTRO for a total amount of up to ₹ 50,000 crores. As per the notification, at least 50 percent of the total funds availed by a commercial bank under TLTRO 2.0, has to be earmarked for NBFCs. Effectively, 10 percent of the funds availed have to be invested in the securities/instruments issued by Micro Finance Institutions (MFIs); 15 per cent in securities/instruments issued by NBFCs with asset size of ₹ 500 crore and below; and 25 per cent in securities/instruments issued by NBFCs with assets size between ₹ 500 crores and ₹ 5,000 crores. These funds have to be deployed within 30 working days from the date on which the funds were availed.

By the way of this notification, RBI has essentially fixed a tap that had become inoperative since the last two years. This announcement is aimed at granting some relief to the NBFCs, and will allow them to draw some much needed liquidity in these harsh times. **However, early response to this TLTRO 2.0 is tepid as banks are reluctant to lend to mid-size and small NBFCs/MFIs in current situation**.

Continuing with the slew of reforms, the **RBI agreed to provide special refinance facilities** amounting to ₹50,000 crore to various All India Financial Institutions (AIFIs). National Bank for Agriculture and Rural Development is set to receive ₹25,000 crore in order to refinance regional rural banks, cooperative banks and MFIs; the Small Industries Development Bank of India is set to receive ₹15,000 crore for on-lending/refinancing; and the National Housing Bank will receive ₹10,000 crore to support housing finance companies. The RBI also announced a reduction in the reverse repo rate by 25 bps from 4 per cent to 3.75.

Forging a new path to recovery

Though refinancing is still a viable option, a discussion is underway for introducing a one tap bond that will allow the NBFC to approach the financial market in a regular fashion. Alternatively, the **Government can provide liquidity to the NBFCs by instituting a fund** that absorbs the NPAs of the NBFCs.

Alternatively, lending to NBFCs could be subject to central government guarantees to invoke confidence among lenders. According to Professor Ananth, "**India needs an Alternative Investment Fund (AIF) that can digest the chronic bad assets** that were dismal even before COVID-19, like real estate and telecom. The upside should be given to the originator of the assets and settlement has to be done by government agencies. The government has to follow this with a lot of sectoral reforms, so that it can make good on the NPAs. The bank has to be run as a professional entity."

In the last few years, even before large scale defaults took place, **NBFCs were found guilty of overleveraging the areas in which they operated.** The regulatory bodies need to ensure that going forward, NBFCs not only practice greater discipline but also are greatly supervised. In Assam, the Microfinance Institutions (MFIs) Network, a self regulator for the sector, found that 7% borrowers in the state were over-indebted, more than double the national average of 3%.

Thus, **NBFCs have to be brought under the direct purview of reforms** and new rules have to be established. For instance, in order **to discourage over leveraging**, a borrower can be restricted from borrowing from more than two NBFCs. Though such a rule already exists for Joint Liability Groups who borrow from MFIs, we need to apply the same on a blanket basis.

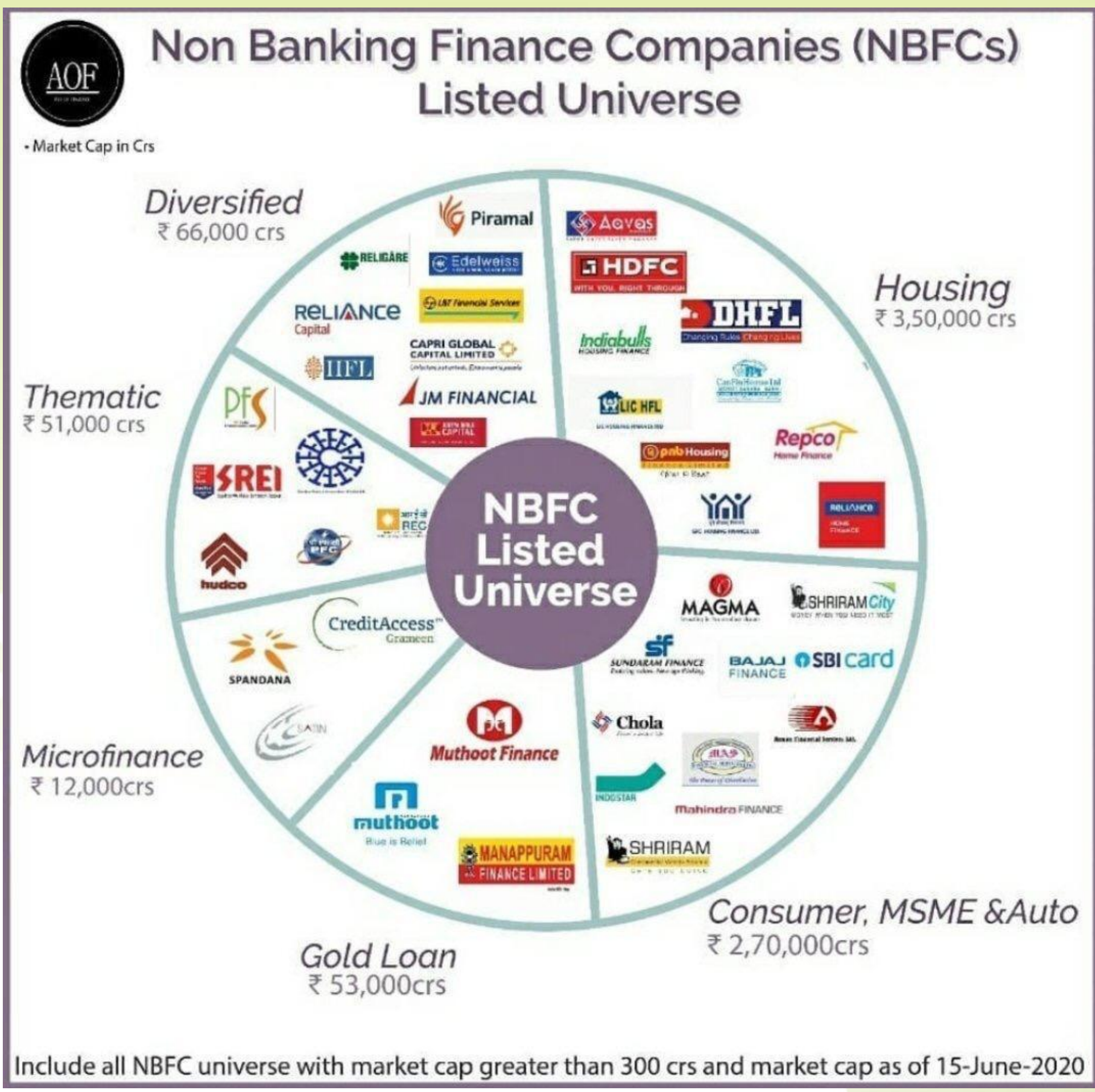
In light of the crisis induced by the pandemic, many small and medium sized businesses are expected to face stress. NBFCs who lend to SMEs will have to exercise precaution and establish an underwriting process. The underwriters will factor the shock into their loan evaluation by looking at the sector the business operates in, the cash flow generating capability of the sector and the demographic the business caters to. This will help the NBFC in maintaining their asset quality.

Conclusion

Since 2018, a major cause of concern for NBFCs has been the lack of liquidity. The failure of some prominent players led to a deficit of confidence in the sector. Commercial banks became prudent and institutional investors became risk averse. The announcement made by the RBI which specifically earmarked funds for the NBFCs in TLTRO 2.0, brings a ray of hope for the sector. Moreover, by empowering AIFIs with additional corpus, the RBI has granted more liquidity to the financial sector. However, a**llowing for flow of funds** into the NBFC sector seems like only a **temporary solution. NBFCs will have to adhere to strict fiscal discipline** and should be asked to **maintain greater liquidity reserve** with them.

The pandemic of COVID-19 has attacked an already weakened NBFC sector significantly. Underwriting and collection efforts will have to be ramp up in order to ensure asset quality is protected. As a support, Banks will have to strictly adhere to RBI’s norms of moratorium and liquidity as a support to NBFC sector for their survival in such times and for their subsequent growth. **We just cannot ignore such shadow banks like NBFCs that has contributed immensely for India’s economic growth by lending to consumers for their aspirational and basic needs, offering loans to small businesses as well as establishing small entrepreneurs in the form of all-women loans through micro-financing.**

From an investment perspective, NBFCs with business models of providing secured loans in housing or gold may be relatively safer v/s unsecured loans, though defaults can creep up temporarily. Unsecured micro-finance companies largely exposed to undisrupted areas of agriculture & dairy sectors are also better placed. Post correction, though selectively, margin of safety is the highest in India’s financial sector given panicky perception reflected by stock market valuations.



LIFE INSURANCE

ROLE OF CMA IN LIFE INSURANCE ORGANISATION

CMA P Narasimha Murthy
Insurance Consultant

Life Insurance Organisation is a service organisation, providing a financial service called life insurance coverage. Life Insurance is a financial arrangement wherein, the insurer will agree to pay the specified sum of money as compensation for financial losses suffered on the occurrence of insured event(s) during the policy tenure, in return of a consideration which can be a lumpsum or periodical payments. In other words, Life insurance organisation deals in financial risks.

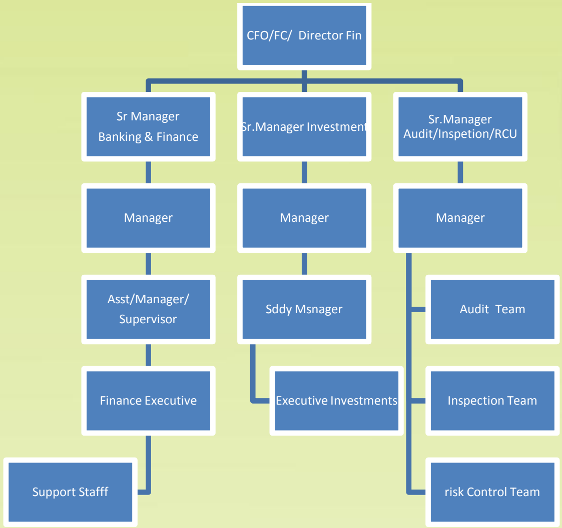
The product sold by a life insurance organisation is in real terms a financial service. The whole gamut of life insurance is highly a technical one and presumes the adequate understanding of various domains like Political, economic, social, legal, financial, demographic medical and actuarial.

Unlike a conventional product organisation, Life insurance is typical in the sense that each product sold is unique and customised, hence involves individual analysis and decision in every decision. So, clarity of understanding, accuracy in decision is a must, which can be best handled by professionals in finance field like CMA.

Unlike a conventional product sale, wherein the obligations of the seller terminating with the completion of sales process, in Life Insurance the span of sale is dependent on a time period connected with a life. So, the contract of sale will terminate only on the occurrence of the insured event during the policy tenure. Also, that the acceptance of a risk, maintaining, servicing and discharging the obligations are all separate and highly standardised processes. Standardised in the sense that there are no discretionary provisions involved. This means the whole process needs to be clearly defined, through process maps and decisions need to be documented in detail in guidelines or administrative manuals.

Hence a CMA,being a financial professional, wanting to connect with the Life Insurance Industry should know the scope of his work clearly. The complexity is enhanced by the fact that each product sold being unique, so needs to be scrutinized.

1. **CMA As a financial executive:**
   It is interesting to note that CMA has a role at every rung of the finance domain in a life insurance industry. General hierarchy in financewing of a life organisation will be something similar as below.



The hierarchy is Board-→ CFO/Director Finance/Financial Controller-→Senior Manager Finance/ Senior Manager Investment/Senior manager Audit & Compliance→ Manager--→Asst manger-→Executives--→Support staff. From the above it can be seen that at every level, Qualified CMA, CMA students have immense opportunities. Only requisite is domain knowledge of insurance which can be acquired through studies in Insurance. Insurance being highly capital-intensive business, finance needs to be managed with exceptional care, which CMAs can efficiently. Details of domain education required will need to be discussed separately.

2. CMA as a Financial Underwriter:

As mentioned earlier unlike in a product organisation, in Insurance every sale needs to be priced. Underwriting function is related to evaluating the risk and fixing a price for every risk. It is a very interesting and challenging profile. Intriguing factor is an underwriter will have to be one, who is a good analyst, having updated knowledge about Social, cultural, financial, demographical, occupational, a vocational, economic, political, legal and MEDICAL aspects. Impact of these factors as in any given case, on the financial risk needs to be assessed.

Insurance companies normally will have an in house team of medical, pharma personnel to assist the decision making on medical factors related to the risk. But the challenge is decision once made to accept/rate/modify terms of risk cannot be changed. Hence the decision needs to be 100% accurate. This makes the role of underwriter highly challenging. A financial underwriter will translate the impact of all the affecting factors into numerical values an in terms of money to be charged as price.

3. CMA as a Risk Analyst

Interesting to note is that Insurance is the only industry which is based on Utmost Good faith, which is an intangible moral value. Every risk comes with this assumption. Though insurance contract warrants the truthfulness/accuracy of statements made in the application, there are a few instances where this is breached. Such breach is known as “Moral Hazard”. This moral hazard is selection against insurer which is legally not acceptable. Once a claim case is decided, cannot be retrieved. Hence it becomes essential to get clarity. Risk Analysts are equipped with the skills to elicit information and share it with underwriters. CMA with good understanding of insurance and communication skills can be hired for this purpose.

4. CMA as a claim investigator

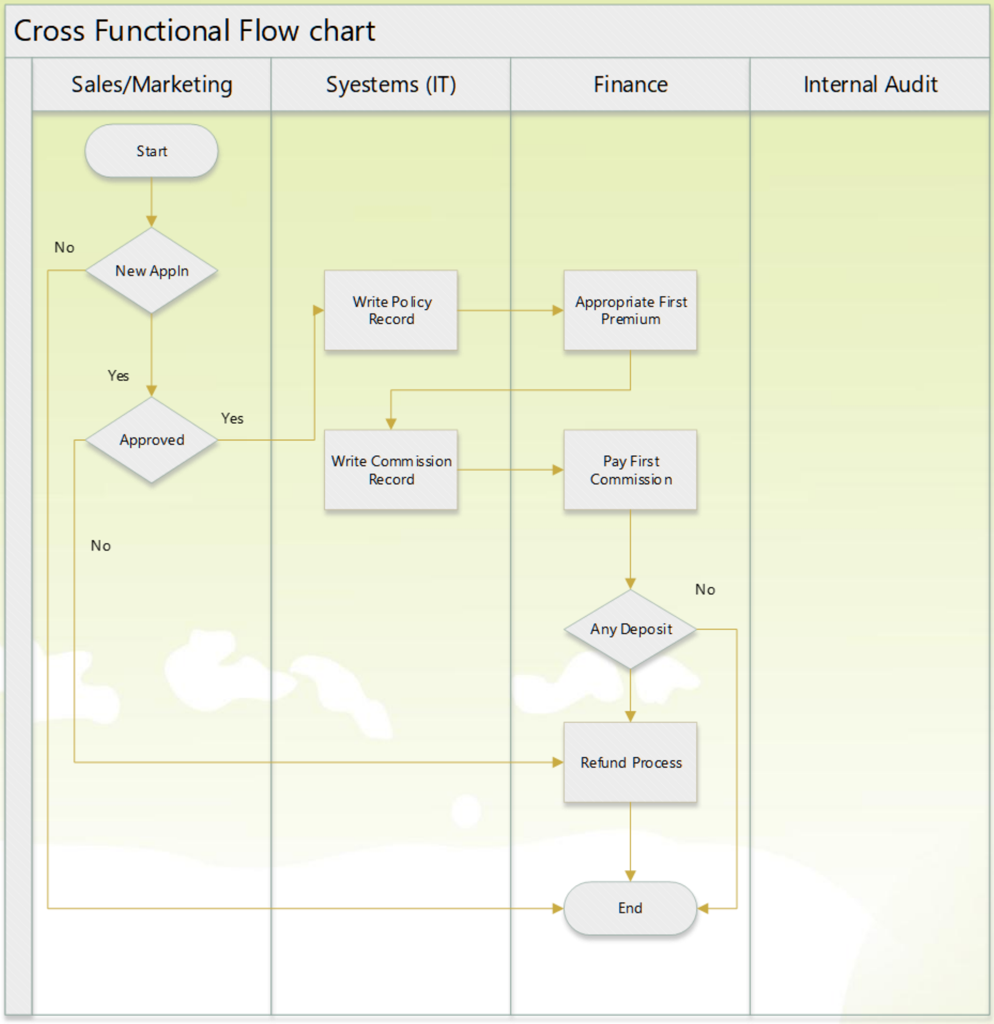
Claims arising out of Moral Hazard are generally known to be early claim. Not necessarily always. Normally there is a process of investigation before repudiating an early claim.

In current Indian practice, the importance of this investigation seems to have been misunderstood and the same is being handled by detectives and private investigators who would judge the case by criminality and not from breach of faith perspective. This investigation is, best handled by professionally trained CMAs.

5. CMA as process Analyst

Entire Insurance Industry is highly technical and process driven. As already known there will be multiple decisions involved in the policy life time and all are unique for every risk. Any error in judgement or slip in process or an uninformed decision of using discretion would have huge financial ramifications. In view of the volume of transactions, complexity involved, there needs to be standardisation of processes. This requires astute analysis of situation and drawing process maps considering all possibilities.

CMAs who are normally exposed to process costing, will have an advantage of designing these process maps/Data Flow diagrams (DFD), review/modifications, analysis of exceptions etc.



Also, technology is so advanced, these PFDs or DFDs can assess the cost element, which can be efficiently managed by CMA.

6. CMA as Product Designer

Insurance products are always need based. Analysis of these needs is done through a market research program. Market research is part of pricing function which is headed by a qualified Actuary. However, the financial inputs in pricing function can be best provided by a financial expert or a CMA, as part of the Pricing Team.

7. **CMA as Investment Specialist**
   Finance is the crucial function in Insurance. In view of falling interest rates, ever surging inflation, profit margins are getting narrower day by day. Also, it is a know fact that insurance is a cash rich business. There are two strange features which is hidden in insurance, known to everyone but not given importance is that –

   First, there is additional load of liabilities with every transaction. For example, a life aged 50 may pay Rs.1500 premium per month on a cover of Rs. 50 lakhs, it is to be noted that once the policy is signed, then revenue received by the insurer at that point of time is Rs.1500 only whereas the liability against the policy is Rs.50 lakhs. Also, the insurer can recover only unpaid premiums in the policy year and not beyond.

   Second, Insurers do not have a free hand to invest all the surpluses the way they want. Sec 27A, Insurance Act,1938 stipulates that insurer will invest surpluses in a specified way. Only a nominal percentage is allowed for speculative/equity market.A CMA with expertise in managing investment will be a best resource in an insurance company

8. **CMA in Legal Team:**
   Typically, every process, transaction in Insurance has serious legal & financial implications, hence all documents drafted by legal department is best reviewed by a CMA qualified in Insurance.

9. **CMA in internal Audit**
   With the Companies Act 2013, giving entry to CMAs in Internal Audit, this can be a coveted assignment. However, in view of the volume of finance involved, the insurer will look for expertise in domain as well as audit. CMA with adequate domain expertise/knowledge can be a best resource in audit

10. **CMA in Compliance**
    Insurance is highly regulated industry. So, compliance is all the more important. If we observe the regulator's notifications, every now and then regulator is imposing penal provisions on the insurer, fines amounting to crores are being levied for non-compliance. Such Levies/Censures impact the creditability of Insurer. CMA with adequate compliance knowledge would be an ideal resource.

11. **CMA as a Business Analyst**
    In a system environment, for automation, where business rules are to be defined in finance terms, Business Analysts play an important role. This activity can be managed efficiently by a suitably qualified CMA in systems design in Insurance Business.

12. **CMA as a Quality Analyst/Data Analyst/Financial Analyst**
    Role of analysts in the modern business world is well known. CMAs can play a definite role in these assignments, in assessing financial impact, in Life Insurance too.

At the end it can be seen that there are so many new avenues for CMAs with added domain and technical skills, in Indian Life Insurance Industry. There is only a regulatory restriction on outsourcing of technical/core insurance work but qualified CMAs can be hired as consultants or contract employee and benefit by their expertise. In all that we saw above, there is a need for incremental knowledge upgradation. If the curriculum of the CMA course can be adequately modified in line with needs of economy, then CMA profession will have bright future.

HEALTH INSURANCE – A RISK MANAGEMENT MECHANISM FOR PANDEMIC SITUATIONS

Prof. Archana Vaze
College of Insurance
Insurance Institute of India

Dr. George E. Thomas
College of Insurance
Insurance Institute of India

Wuhan, a city with 11 million population in Hubei province of Central China became the talk of world and made us realize a different meaning of globalization with the spread of Covid-19 virus across the globe. It literally brought the world on its knees with so many lockdowns in various countries and as a result affecting the economies of the world at once. Covid-19 has becomea pandemic in no time spreading across multiple countries and continents andIndia has been no exception.

The Lloyd's City Risk Index 2015-2025,[1] an analysis of the economic output at risk in 301 major cities from 18 manmade and natural threats over a ten-year period, based on the trends in10 major cities in India, identified the 5 top risks for the country as (i) **Pandemic risk**, (ii) Flood risk, (iii) Market crash risk, (iv) Oil price spike riskand (v) Terrorism Risk. Though the Human Pandemic risk occupying the top spot had raised many eyebrows when the report was published in 2015, the magnitude at which Covid-19 affected India and the whole world 2019-20 episode affirms that the Lloyds study was built on solid foundations.

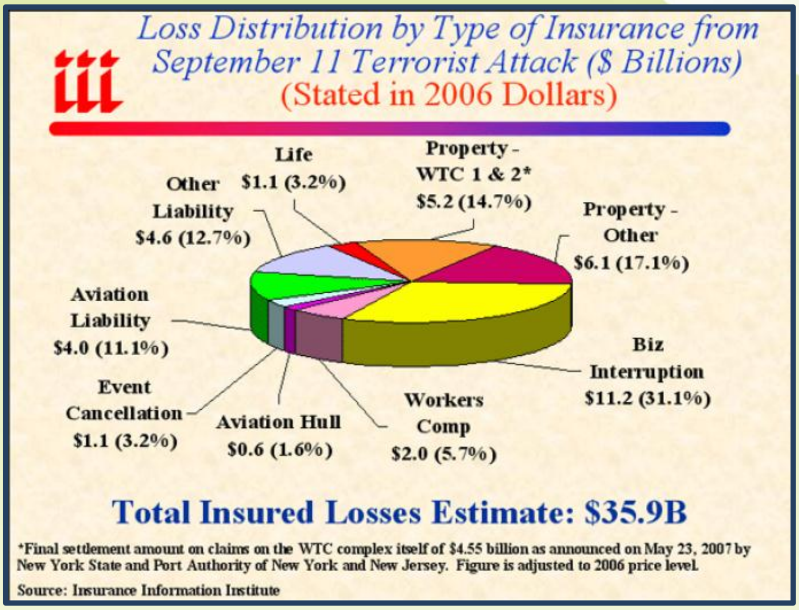
Lloyds estimates the current risk exposure for Human Pandemic as USD 47.13 billion (approximately 0.13% of the estimated World GDP[2]). India as a country has a risk exposure of more than USD 1.66 billion, which is approximately 0.37% of the estimated GDP,[3] with the top four metros contributing to more than 58% in terms of risk exposure. In simple terms, this means that the country is 3 times more vulnerable to pandemic situations than the world.

[1]The Lloyds of London publishes the Lloyd's City Risk Index periodically as an analysis of the economic output at risk in multiple cities. The City Risk Index 2015-2025 was published by Lloyd's along with the University Cambridge. - https://www.rediff.com/business/report/pix-special-indias-10-riskiest-cities-mumbai-tops/20150904.htm
[2]Lloyds of London - https://cityriskindex.lloyds.com/explore/
[3] ibid

Today, five years after the Lloyds Report was published, when the Indian economy is in stagflation under three months of lockdown conditions, when670 thousand plus people have been infected and nearly 19,000 plus lives lost due to the Covid-19 pandemic, insurers need to ponder, albeit in retrospect, on the ex-ante and ex-post actions that need to be taken when one is forewarned.

Parking the question why no one considered pandemic risks important enough to be addressed from a risk management perspective despite being cautioned, let us look at how the industry has responded to such situations in the past.

The risk of terrorism which was known to us for years together, suddenly became a tangible reality after the 11th September 2001 attack which cost the insurance industry 31.6 billion USD[4].The line of businesswise breakup of the total losses is shown in the diagram attached.



As an aftermath of this event, terrorism risk cover was withdrawn from insurance policies, existing policies were cancelled and new insurance policies were issued, excluding terrorism cover. Visionaries in the industry understood that terrorism risks had to be dealt with differently and this realization resulted in the formation of the 'Indian Market Terrorism Risk Insurance Pool' (IMTRIP), as a country level solution. Even the formation of the terrorism pool and the reasonable rates that it offered, did not popularize the cover beyond the large industrial houses. Only after the 26th November 2008 terrorist attack on Taj Hotel, Mumbai (costing INR 3.76 billion) people started looking at terrorism cover as something they must have in their property insurance policy. The Indian insurance industry has responded to similar unique situations collectively and formed the FAIR Natural Catastrophe Reinsurance Pool (FNCRIP) and India Nuclear Insurance Pool (INIP) as special mechanisms to cater to the needs of the country from time to time.

Dealing with the Human Pandemic

When it comes to dealing with the Human Pandemic situation, let us see where we are. As per research studies done in 2016, 64% of total healthcare costs[5] is out of pocket expenditure and the penetration of voluntary health insurance coverage was not up to the mark. As per data[6]published in 2018, the penetration of health insurance came to around 35% and was growing as a large part of the population of India was getting covered under government sponsored schemes. As of May 2020, more than 107 million families comprising around 500 million Indians stand covered under the PM-Jay (Ayushman Bharat) Scheme and over 1 crore people have taken benefit under 22,000 public and private hospitals empaneled[7] nationwide.

Risk Management Angles

When it comes to risk management, rather than looking at one aspect of the risk, a holistic approach towards the overall mechanism of risk management needs to be understood and appreciated. The important steps in any good risk management mechanism are shown in the diagram below.

4 https://iii.org/
5https://www.statista.com/
6https://www.statista.com/
7https://en.wikipedia.org/wiki/Ayushman_Bharat_Yojana

Risk Identification

Risk Reduction

Risk Retention

Risk Transfer

Risk Identification: When it comes to healthcare, bearing the cost of financing one's own and one's family's treatment costs is a risk that everyone faces. For instance, 64% of total healthcare expenditure in India is borne by individuals as out-of-pocket expenditure as per a research study[8] done in 2016.

India is the 2nd most populous country in the world with a population density of 405people per km2. The average annual population growth rate9 is 1.3% (for the year 2013-2018). Population density is more pronounced in the urban area where almost34.08% of the population reside as per World Bank data. The ratio of hospital beds per 1000 people is 0.53 as per data published by the Government10 in 2017. As per data published by Niti Aayog in year 2015 the various levels of health infrastructure available for public on pan-India basis was as below:[11]

- Sub centers - 153,655
- Primary Health centers (PHC) - 25,308
- Community Health Centers (CHC) - 5,396

As per data published in 2013, India has one government hospital bed for 879 people on average.[12]The doctor-patient ratio is another important indicator of the health infrastructure of a country. There is one doctor for 1445 Indians which is less than the doctor-patient ratio of 1000:1, recommended by World Health Organizations (WHO).[13]

India has a young population with a **median age** of **28.4 years**[14] which was considered a big advantage in the initial phase of the Covid-19 pandemic. However, the data from Maharashtra, one of the worst hit states of India, as on 13th June 2020 shows that the maximum number of Covid-19 patients(approximately 20%) are in the age group of 31-40 years, followed by those in the 41 to 50 age bracket (approximately 18%).[15]

The deep-rooted habits of the country, makes India the country having the highest number of people defecating in the open, resulting into health hazards and contamination of drinking water sources. The government took notice of this situation and launched the Swatch Bharat Abhiyan in 2014. In October 2019, the Hon'ble Prime Minister of India declared India free of open defecation after building 110 million toilets.16Some sample surveys conducted around this time found certain gaps in the data17 and pointed out that the mere presence of toilets did not prove that people are using them.

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[8]https://www.statista.com/
[9]https://data.adb.org/dashboard/india-numbers
[10]https://tradingeconomics.com/india/hospital-beds
[11]http://niti.gov.in/content/health-infrastructure
[12]https://data.gov.in/resources/stateut-wise-number-government-hospitals-and-beds-rural-and-urban-areas-including
[13]https://health.economictimes.indiatimes.com/news/industry/doctor-patient-ratio-in-india-less-than-who-prescribed-norm-of-11000-govt/72135237
[14]https://www.worldometers.info/world-population/india-population/
[15]https://www.hindustantimes.com/mumbai-news/maximum-covid-19-patients-in-maharashtra-in-31-40-age-group-data/story-nwF3NzKS0AH9KJ9Y8cQXvI.html
[16]https://edition.cnn.com/2019/10/05/asia/india-modi-open-defecation-free-intl-hnk-scli/index.html
[17]Survey by the Research Institute for Compassionate Economics in 2018 and by the National Statistical Office (NSO)

Risk Reduction: If the country has efficient and effective systems to treat everyone's diseases free of cost or at nominal costs, the risk of financing healthcare significantly diminishes.

Once the risks are identified, various ways for reducing their impact can be thought of. For instance, the number of hospital beds can be increased by incentivizing corporates to use their CSR funds for creating health infrastructure in rural areas, so that the current burden on big cities can be reduced to certain extent.

Instead of relying only on allopathic doctors, use of the well-established alternative treatment systems of India, collectively called as AYUSH (Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homeopathy), needs to be promoted. The number of hospitals, dispensaries and qualified people as per AYUSH ministry website is given below.[18]

	Hospitals	Dispensaries	Registered Practitioner (Institutional Qualified and Non-Institutional Qualified)	Registered Practitioner(Institutional Qualified)
Ayurveda	3186	17102	443704	294162
Unani	259	1621	51110	38672
Siddha	291	848	9125	5685
Yoga	8	235	0	0
Naturopathy	17	101	2485	2349
Homoeopathy	225	7259	293455	246792
Sowa-Rigpa	0	33	0	0
Total	**3986**	**27199**	**799879**	**587660**

Utilization of these traditional medical practices can improve the doctor-patient ratio significantly. At the same time, our focus will shift from just sickness to wellness resulting in true risk reduction. Interestingly, the Pradhan Mantri Jan Arogya Yojana (PMJAY), popularly known as Ayushman Bharat Scheme, has envisioned holistic health coverage and made provisions for Wellness Centers in its original design.

As per UNICEF, fecal contamination and poor sanitation are leading causes of child mortality, disease, under nutrition and stunting. If we create more awareness about these causes more and more people will start using the toilets constructed in their houses and villages instead of relieving themselves in open areas.

Risk Retention: People can retain their risks if they can afford to meet all such expenses from their own savings or reserves, or create alternate arrangements. However, some risks cannot be transferred. Alternatively, one can decide not to transfer one's risk for various reasons. All such scenarios of the risks getting retained are broadly referred to as self-insurance.

In few cases, people may decide to form their own pooling arrangements, commonly referred to as mutuals or cooperatives. Here people having similar risk profiles pool their resources to cover one others' risks. The advantage here is people can decide their own coverages and costs and also the claims settlement mechanism resulting into total transparency to all the members. As per ICMIF, the global market share of mutual and cooperative insurers in 2017 stands at 26.7% of the global insurance[19] market.

As Insurance is based on the principle of large numbers, as the risk spreads the probability calculations become more and more accurate and thus reducing the costs of risk protection for the end users, bigger pools of homogeneous risks have their advantages.
Risk Transfer: Though risk can be reduced by various methods, the uncertainty part that cannot be reasonably foreseen would always remain. Hence, it is always advisable to transfer the costs of financing healthcare risks to insurance companies, which are specialized commercial institutions that professionally handle health care risks.

There are two kinds of health insurance products available in Indian insurance market. The first kind of products are indemnity based, which reimburse the actual costs incurred by the customer when he gets hospitalized for any

[18]https://health.ncog.gov.in/
[19]https://www.icmif.org/publications/global-mutual-market-share/global-mutual-market-share-10

illness, subject to the sum insured/ policy limits and other terms and conditions defined in the policy are satisfied. Most of the products offered by general and health insurance companies fall under this category.

The second kinds of products are benefit products where the customer is paid a predefined amount based on terms and conditions of the policy. The hospital daily cash products offered by general and health insurance companies and critical illness add on covers given by life insurance companies come under this category.

Considering the high cost incurred by the patients during Covid-19 hospitalization, many people were finding Covid-19 treatment unaffordable. With the slowdown in the economy, some people had to use all their savings to pay the hospital bills. Post Covid-19 experience, people will surely realize the value of having adequate health insurance coverage as a risk management mechanism.

Insurance Literacy and Regulatory Support

Financial literacy is essential for a country's progress. Absence of insurance knowledge would result in people not understanding the complex terms and conditions of insurance policies and deciding to stay away from same. Understanding the plight of people who are not able to understand insurance and reap the benefits afforded by insurance in this challenging time, the Insurance Regulatory and Development Authority of India (IRDAI) decided to take some special measures to develop the health insurance market and help the end-users.

The first step by IRDAI was issuing a special circular dated 30th March 2020[20] clarifying to insurers as well as the general public that the existing indemnity based health insurance policies offered by general and health insurance companies will be covering Covid-19 related treatment expenses, thus clearing all confusions on this issue.

For those people who had not realized the importance of having health insurance in the past and wished to purchase health insurance to cover Covid-19 specific risks, IRDAI came out with two simple policies, Corona Rakshak and Corona Kavach.

(1) ***'Corona Rakshak'*** is a standard benefit-based policy having a minimum sum insured of ₹50,000 and a maximum limit set at ₹2.5 lakh. Corona Rakshak provides a predefined benefit equal to the sum insured on positive diagnosis of Covid-19, if it would require hospitalization for a minimum continuous period of 72 hours.

(2) ***'Corona Kavach'*** is a standard health policy with a minimum sum insured of ₹50,000 and maximum sum insured of ₹5 lakh, offered on indemnity basis. Corona Kavach covers hospitalization/healthcare expenses such as room and boarding charges along with costs of personal protection equipment (PPE) kits, gloves, masks etc. It also allows costs of AYUSH treatment for hospitalization/ home treatment on positive diagnosis of Covid-19.

One special feature of both these special health insurance policies is that there is no deductible/ excess.[21]These policies will be offered by all general and health insurance companies offering health insurance products in the Indian market. The Insurance Regulatory and Development Authority of India (IRDAI) has directed[22] insurers to finalize the pricing and other details before 10th July 2020.

In essence, Pandemic situations can be costly for individuals and can cause huge expenses to the government exchequer. Concerns of healthcare arising from pandemic situations need to be understood professionally, from a risk management point of view. It is heartening that Indian insurers and the insurance regulator have viewed the pandemic situation benignly and proactively so that payments on the existing insurances have been facilitated and new focused products are being issued. Proper ex-ante planning can help in passing on the costs of treatment from the individual and the government to the commercial insurance mechanism, which is a practical and cost efficient way of risk management.

[20]https://www.irdai.gov.in/
[21]**Deductible/ Excess** – it is the minimum amount of money one must pay before the actual insurance policy sum insured kicked in
[22]https://www.irdai.gov.in/

BANKING

PEER2PEER LENDING: THE NEXT BIG DISRUPTION IN CONSUMER LENDING SPACE

CMA Sushant Parakh
Founder, Candid Solutions
Corporate Training and Wealth Management

Technology is rapidly transforming the banking and financial services landscape. What started with innovations in the payments space, the developing technologies are now helping banks and other tech companies cover the entire financial sphere, covering saving, payments, lending, insurance and others. Governments are increasingly using it for financial inclusion. Increasing financial inclusion, along with higher mobile and internet penetration offer enormous opportunities in the consumer lending space too. Peer 2 Peer Lending (P2P Lending), is one such promising development, that is set to grow by leaps and bounds in the coming times.

Background

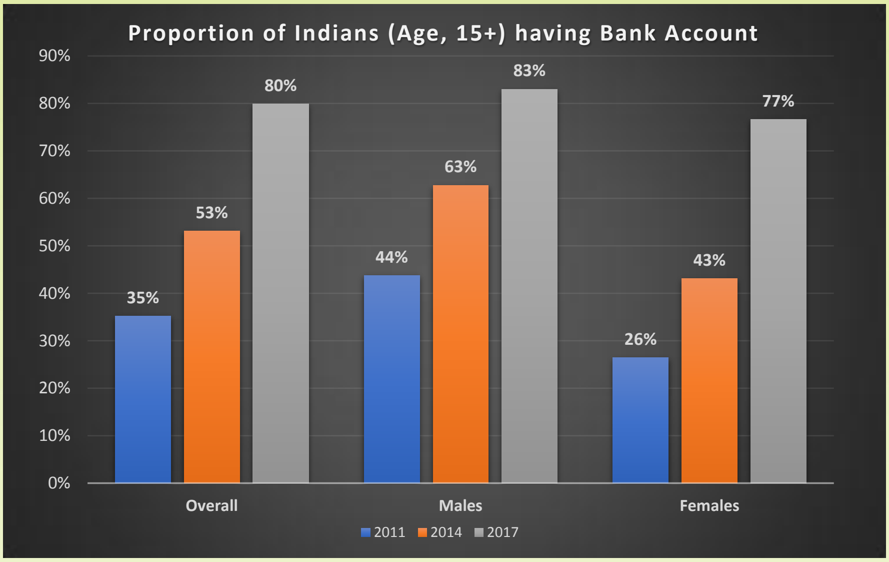
Money-lending as a commercial activity has been in existence for centuries. It originally started with individuals (those with surplus money) lending to other individuals (those in need). Over time, as trade and commercial activities grew, organized money lending gathered pace.

Today, a wide range of institutions, ranging from commercial banks, credit societies, non-banking financial companies etc. are catering to this demand for lending. With its large network and reach, the formal credit system has been increasingly catering to the demand for credit by private individuals and businesses and even governments.

There has been a revolution of sorts, in the form of number of individuals in India having formal bank accounts. In the year 2011, 35% of Indians above the age of 15 had accounts in any bank. This number grew to 53% in 2014, and 80% in 2017. This phenomenal growth has been largely possible due to government focus in the form of 'JanDhan accounts' – which are basic savings accounts for the hitherto unbanked sections of the society. Equally important role was played by the universal ID, namely, Aadhar (a 12-digit individual identification number issued by the Unique Identification Authority of India) on behalf of the Government of India. This number serves as proof of identity and address across India.

Exhibit 1: Proportion of Indians with Bank Accounts

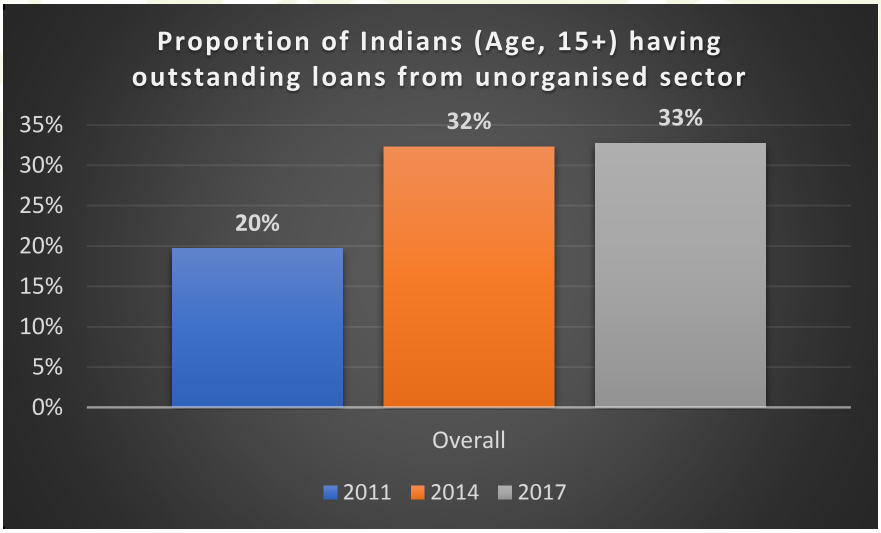
As can be seen from the adjoining graph, as many as 80% of Indians (Age, 15+) have an account with any bank. This number is higher for males – 83% and lower for females at 77%. During the three year period 2014-2017, the proportion has increased sharply, bringing millions of Indians into mainstream banking.



(Source: Global Findex Database, 2017)

But there still exists today, a large section of population which do not qualify for Bank/NBFC or other formal sector loans because of reasons such as: low incomes, poor/no credit history, inability to provide collateral or guarantor etc. These have no option but to turn to unorganized money lending options – where they have to pay exorbitant rates of interest.

Exhibit 2: Proportion of Indians who borrowed from the unorganized sector



(Source: Global Findex Database, 2017)

In 2017, as many as 33% of Indians (Age, 15+) borrowed from the unorganized sector. This has increased from about 20% in 2011, and represents a huge opportunity for credit.

Since the last decade, several innovative startups sprang up, looking that the opportunity presented by this huge section of the population and its demand for credit. Unlike traditional methods adopted by the banks and NBFCs, they increasingly adopted technology platforms to reach out to customers and market their offerings. They offered products such as accounts (wallets), payments and international money transfers, consumer loans, payment getaways, stock trading, crypto-currencies, crowd-funding etc.

What is FinTech?

"Fintech is the term that describes the group of new financial technologies designed to enhance and automate the use and delivery of financial services. It is set to completely alter the way we save, borrow and invest our money by making transactions paperless, without the usual need of physical traditional bank branch"

SO what is P2P lending?

Peer-to-Peer Lending (P2P Lending) – a tech-driven lending platform that facilitates connection of persons with surplus money (available to lend) and persons who require money (willing to borrow). It enables individuals/businesses to avail loan directly from other individuals, without having to go through intermediaries such as banks.

Crowdfunding is also a kind of P2P model, where several individuals invest for a common cause. In India, this is mostly used for creating a social impact. (Example: Ketto.org)

How does it work?

P2P Lending platforms connect borrowers and lenders (investors) through their platforms (website/mobile application). Let's see the role of each of these:

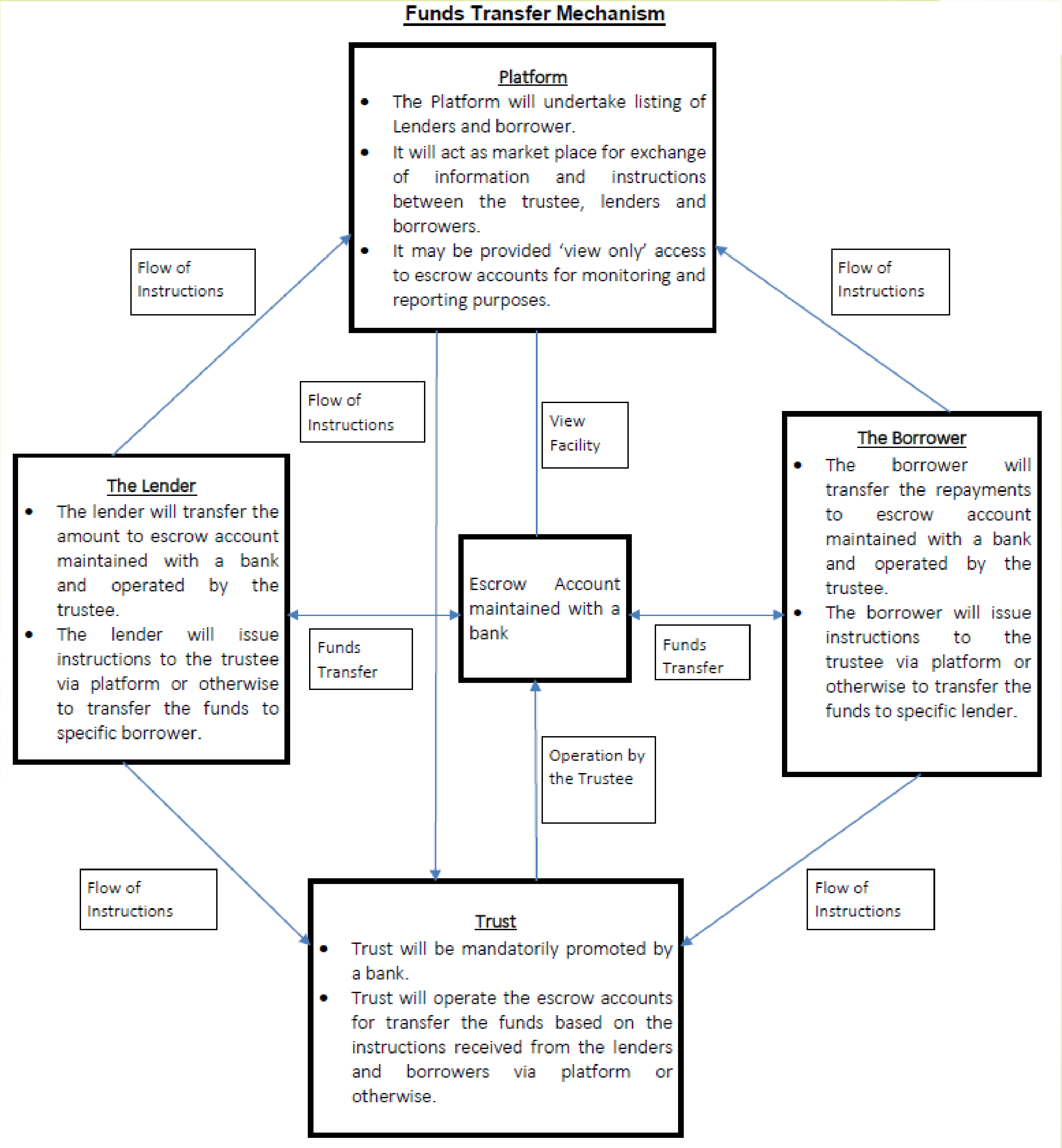
Lenders (Investors): Those who wish to lend their money through P2P platforms can create their Lender (Investor) profile by registering themselves on the platform. For registration, they have to submit details such as name, address, PAN, bank details etc. Once registered, the lender can view all the borrower profiles listed on the platform. From amongst these profiles, the lender has complete freedom to select the borrower(s) to whom he wishes to lend and the amount he wishes to lend. In making this evaluation, he may make use of the credit scores given the by platform. Platforms usually categorize the borrower profiles on the basis of returns potential (interest on loan) and the risk profile (low-medium-high risk). Lenders usually lend to (invest) multiple borrowers, so that their investment is well diversified, to optimize the risk-return potential. From the amount so lent by him/her, the lender receives repayment from the borrowers in the form of EMI (Equated Monthly Instalments). He may chose to re-invest the entire EMI so received, or a part of it. Alternatively, he may also withdraw partly/entirely.

Borrowers: Those who wish to borrow money have to register themselves by submitting their details such as: name, address, details of his residence and employment, existing loans and their repayment status and other details such as bank account, PAN, GST (if applicable). Additionally, borrowers are also required to submit their bank statements and income documents (Income Tax Returns/Salary Slip etc.) Once such details are uploaded, the platform then evaluates the credit profile of the borrower and lists the requirement – which can be viewed by the lenders (investors). Borrowers can receive real-time information on loan approval, amount funded by lenders etc.

The Platform: P2P Lending firms provide a common platform (in the form of a website/mobile application) which facilitates connection of borrowers and lenders. It must be noted here that the P2P Lending companies do not hold the lenders' or the borrower's money in their books, and only act as an intermediary to facilitate the transactions. It provides services such as: registration and listing of borrowers and lender profiles, facilitating transactions of lending and repayment through EMIs, collection and recovery in case of non-payment by borrowers. It also provides statement of account, including income earned and defaults, to the lenders (investors). For performing these functions, these platforms usually charge fees (which are usually a percentage of the amount lent/borrowed) from the lenders and borrowers. Further, P2P Lending firms often employ services of third-party service providers for carrying our some of its functions, such as maintaining funds transfer mechanisms, collections and recovery etc.

The same can also be understood with the help of a diagram. (See Exhibit 3)

Exhibit 3: Working of P2P Lending platforms



Evolution and Growth of P2P Lending

Peer 2 Peer Lending formally started first in the United Kingdom in the year 2005, by a firm called Zopa and in the United States in 2006, by Prosper. Thereafter, the business model spread to other parts of the world including Asia. It is already a big industry by itself in China. In many markets, these firms were initially seen with suspicion, and in some as a threat to formal retail finance by banks.

In India, Faircent was one of the first to launch P2P Lending platforms, in the year 2012. However, given its twin problems: lack of awareness and absence of enabling regulatory framework, P2P Lending didn't gain much acceptance initially. It was only in the year 2017, that the Reserve Bank of India formally issued notification in the form of Master Directions for P2P Lending Business. With this, the regulatory grey area ended, and an enabling regulatory and governance framework was sought to be created. Amongst other items, these Master Directions laid down the following:

- Process of registration for existing and new P2P Lending companies
- Eligibility criteria, including Net Worth criteria
- Scope of activities that the Peer 2 Peer Lending firms can undertake
- Prudential Norms
- Operational guidelines
- Disclosure, Compliance and Reporting requirements
- Fair Practices Code and Grievance Redressal Mechanism etc.

Some of the important regulatory provisions are:

Regarding Registration

- P2P Lending firms shall have minimum net owned funds of Rs. 2 Cr. and it shall only operate as a company incorporated in India.
- Registration with RBI shall be mandatory
- For those P2P Lending firms already in operation before the Master Directions were issued, they were mandated to obtain registration with the Reserve Bank of India in a time-bound manner.

Regarding Prudential Norms

- P2P Lending company shall maintain Leverage Ratio of not more than 2 at all times.
- Maximum exposure (investment) of a lender at any point of time, across all P2P Lending platforms, shall not exceed Rs. 50 lakhs. (This limit was initially Rs. 10 lakhs, but increased to Rs. 50 lakhs in December 2019). Further, any lender investing more than Rs. 10 lakhs (aggregate across P2P platforms) shall submit to such P2P platforms a certificate of Net Worth of minimum Rs. 50 lakhs from a qualified Chartered Accountant.
- No borrower shall borrow any amount exceeding Rs. 10 lakhs, across all P2P Lending platforms put together.
- Aggregate exposure of any single lender to any single borrower, aggregated across all P2P Lending platforms, shall not exceed Rs. 50,000.
- All loans facilitated on the platforms shall be unsecured loans, and for a period not exceeding 36 months.

Other key provisions

- Funds transfer between lenders and borrowers registered on the P2P platform shall be facilitated through an escrow account mechanism. Further, this mechanism shall be operated by a bank-promoted trustee company. All cash transactions shall be strictly prohibited.
- P2P Lending companies shall be required to become member of CICs (Credit Information Companies) and maintain credit information of the borrowers registered on its platform at all times, and also submit relevant data (including historical data) to the CICs.
- P2P Lending companies shall disclose relevant borrower/lender information to each-other and the information of its important policies on its website.
- P2P Lending companies shall put up on their website: Fair Practices Code and Grievance Redressal Policy – both of them should be approved by their Board of Directors.
- On a quarterly basis, the P2P Lending companies shall submit to the Reserve Bank of India, the following information:

- Statement showing the details of loans (number and amount) – disbursed during the quarter, closed during the quarter and outstanding at the beginning and at the end of the quarter.
- Details of funds held in the escrow account, bifurcated into: funds received from lenders, funds received from borrowers, and credit/debit summations for the quarter
- Details on complaints at the beginning of the quarter, those received and disposed off during the quarter and those outstanding at the end of the quarter – bifurcated as those received from lenders and borrowers separately.
- The leverage ratio of the P2P company, with the detailed components (numerator and denominator).

Consequences of RBI regulations:

- Brings in higher transparency for the borrowers and investors
- Puts in place a system of accountability for the P2P Lending platforms
- Clearly defines key operational responsibilities, including maintenance of escrow accounts through third party (bank-promoted trustee companies) – thereby enhancing clarity for all concerned.
- Removes uncertainty regarding regulatory backing and approvals, and facilitates orderly growth of the sector.

Let's see - what makes P2P lending an attractive asset class for investors?

Regular income: Loans given through the P2P Lending platforms are in the form of unsecured EMI-based loans, for a maximum period of 36 months. This makes the returns on these investments (i.e. the EMI payments by the borrowers) highly predictable cash flows over the tenure of these loans.

Flexibility with duration of investments: Depending on his/her investment horizon, an investor may chose short durations loans – say 6 months or 12 months, or any other duration up to maximum 36 months (this is maximum permissible tenor). This flexibility gives the investor complete freedon to plan his/her cash flows.

Risk-return optimization: On the P2P Lending platforms, the borrowers that are listed are categorized according to their credit risk/repayment ability. Accordingly, an investor can select borrowers under low-risk category or medim-risk or high-risk, depending upon his risk appetite. Needless to mention, loans to lower-risk rated borrowers can will earn lower returns (interest) and those to high-risk rated borrowers can potentially earn higher returns (interest). Probability of default also varies accordingly under these categories. Further, an investor can freely choose – whom to lend and how much to lend – depending on his/her risk appetite. With diversification, the loss due to default by borrowers can also be limited.

Simplicity: Unlike other asset classes such as equity, real-estate, gold etc., investments through P2P Lending is quite simple. Basically, it's just a simple personal loan – given to multiple individuals/business – through an online platform. Furthermore, the responsibility of collection and recovery lies with the P2P Lending companies. They do this on your behalf for a service charge. And, it can be started with a small amount, just like a SIP with Mutual Funds or a recurring deposit with banks.

As an asset-class, P2P Lending is delinked from other asset classes such as equity, gold property etc. It can therefore be considered as a potential investment opportunity.

Is P2P lending a zero-risk investment option?

Definitely not.

Like every other asset class, investing through P2P Lending involves risk. Here, the primary source of risk is that the borrowers may default in repayment of their loans. This risk can be mitigated/managed by adequate diversification of loans. But it cannot be eliminated completely.

Benefits to borrowers

- Loan Application process is easy and fully online, hence making the process faster as compared to banks and NBFCs.

- Those borrowers who may not qualify stringent credit criteria of banks/NBFCs, may find it easier to raise loans through P2P Lending platforms. While the cost of loan (rate of interest) for them might be higher than Banks/NBFCs, but it would still be lower than the neighborhood money-lender.
- Another advantage of loans through this medium is that it can be taken for any purpose (such as education, wedding in the family, starting new business, repaying existing loans etc.) and for even smaller amounts.

Failures in P2P Lending business

The journey of P2P Lending businesses has seen some massive failures too, most notable being the failure of one of the biggest P2P Lending platform company, Ezubao, in China, in the year 2015. In China, this industry grew exponentially, and in an almost unregulated manner until 2015 – a time when there were around 4,000 such P2P Lending platforms with estimated value of USD 131 billion. Ezubao was amongst the top Chinese P2P Lending platform. It was incorporated in 2014, and within and year, raised capital of RMB 50 billion, and providing attractive returns as high as 15% to its lenders (investors). On its platform, it had no limits on the amount of deposit or tenure, leading to exponential growth. Eventually, it turned out that Ezubao was helming at Ponzi-type scheme, and it eventually duped close to 1 million of its lenders (investors). This created a panic in the market, and a spate of similar defaults by many other platforms. Eventually, the China Banking Regulatory Commission (CBIC) bought in stringent regulations to govern the sector which was hitherto loosely regulated.

Lessons from the Chinese P2P Lending industry failures were learnt and accordingly, prudential norms were incorporated by the Reserve Bank of India in drafting its own Master Directions for the P2P Lending industry.

Way Forward:

Today, there are as many as 21 RBI registered P2P Lending companies (as of Feb, 2020). Amongst those operating in India, Faircent is the largest P2P Lending platform. Some of the other platforms with notable presence are: LendBox, Rupee Circle, LenDen Club, i2i Funding, Monexo and Finzy. Comparative data for Indian players or the P2P Lending industry as a whole is barely available. The P2P Lending companies in India have also come together and formed an industry body by the name Association of NBFC-P2P Lending Firms, acting as representative body of the industry.

The global growth of P2P lending industry is radically changing and redefining the consumer loans industry. What started as a source of funding for individuals, has now extended in scope to cover loans to small and medium businesses. Global market for P2P Lending is projected to grow to USD 1 trillion by 2025 (*source: NASSCOM–KPMG Report on Fintech in India, June 2016)*, with US, UK, Australia and China being the biggest markets.

In its nascent stage, this industry was looked with skepticism. As the awareness is growing and regulatory enabling environment being created – market participants are looking at is as a key competitor to banks and NBFCs in the unsecured lending space. However, it would also be interesting to see how some of the banks and P2P Lending firms join hands together – and create space for both to grow.

The entire backend process, covering sourcing borrowers, their KYC and credit evaluation, documentation and repayment collection – is entirely handled by the P2P Lending Platform companies. Given this simplicity, and probability of higher-than-inflation returns, many investors are now realizing the potential of P2P Lending as an attractive asset-class which can help them build their investment portfolio.

As the industry grows and the regulatory ecosystem evolves, P2P Lending has the potential to reduce the need for financial intermediation by old structures such as banks – and emerge as a novel ***success story in unsecured lending – made possible by the tech-driven digital era of our times.***

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ECONOMY

THE GLOBAL PANDEMIC IMPACT

Shri Rajiv Kumar
Former VP, Yes Bank &
Ex - MSME Head - Lakshmi Vilas Bank, Mumbai Region

Since origin in China around 10 months ago, the global COVID-19 pandemic has brought the world at standstill. There is need of extraordinary measures from governments across the globe to help resume economic stability. Based on when the pandemic is likely to come under control, several economic scenarios indicate global recession of varying magnitudes.

This situation has hit the Indian economy at a time when growth has slowed to the lowest in a decade due to various structural changes. In the recent past, there were signs of green shoots of recovery in the Indian economy. However, the impending outbreak of the virus is likely to severely impact the recovery process and GDP may shrink.

Banks are backbone of the economy and centre of entire economic activity of a country. Banks are playing a pivotal role with greater responsibility in fight against Covid 19 with the proactive measures and steps announced/taken by the Reserve Bank of India e.g. deferred EMI/interest/payments, asset classification, extra liquidity to the market and additional credit lines/support to borrowers with total relief package amounting to Rs.20.00 lakh crore. Although banks have implemented all the above measures, it is high time for them to assess the impact of the pandemic outbreak beyond this. They need to take measures with realisation that technology and governance play an important role. Furthermore, the banks in India need to address the following concerns/ issues as proactive step to maintain CAMELS and future road map:

The government and the regulators have responded by providing an economic stimulus package with several measures to shore up liquidity and provide forbearance on several financial and compliance commitments. Financial institutions have taken responsive measures to the pandemic and aim to reduce in-person interactions, downsize operations while providing financial support to retail and insttutional customers.

Assessing the impact

The pandemic is impacting the financial services sector in several ways — from business continuity issues and operational considerations to the overall financial outlook. As financial services companies are mobilizing and taking steps to minimize these impacts, they will likely face short- & long-term implications on both profitability’s as well as top line and other balance sheet items. In this difficult and highly uncertain situation due to the pandemic, financial institutions need to stress test their portfolios, for each of the defined scenarios, to better understand the impact. The current economic and market environment warrants additional stress testing that will have direct implications for decisions that these financial institutions make in real time. Identifying sectors/regions/clients that are most at risk and re-evaluating the loan loss provisions under different economic scenarios will be essential. A continued spread of the pandemic and its aftermath will significantly slow down business, hence financial institutions must take additional measures to ensure business continuity to continue to remain relevant to their customers. Banks and financial institutions must prepare for scenarios that might occur post the lockdown period as well. This would be essential in developing a flexible contingency plan that best equips the banks for crisis management and provides supportive solutions to its customers.

The present challenges are likely to demand for high capital infusion requirements for the FIs to maintain both regulatory capital as well as growth capital to maintain health of the organization as well as equip themselves for any kind of jolt and future growth opportunity.

While the long-term implications of the pandemic for the global/ Indian financial services sector is unknown, when normalcy returns, banks, and NBFCs will likely have learned a few lessons. These may include how to best retain operational resilience when confronted with future pandemics, and possibly how to redesign new operating models such as alternate work arrangements and innovative ways to interact with customers in a remote set-up. Furthermore, the pandemic may further accelerate migration to infrastructure of the future – digital channels and connectivity. From a financial institutions' perspective, flattening the curve implies showing resilience by minimizing disruptions and ensuring that the financial impact of the pandemic is mitigated over a longer period. Beyond the operational actions already underway, financial services industry players need to actively consider the short, medium, and long-term operational, financial, risk, and regulatory compliance implications resulting from the continuing uncertainty around the pandemic. Banks and financial institutions must re-analyse their business models and plan for different scenarios.

Banks & Financial Institutions need to plan for a multiple scenario till operations are normalized keeping both their customers as well as employees needs at the centre of their businesses. It is expected that the government stimulus will plan to address the broader economic challenges.

There will be uncertainty, disruptions and delinquencies, however these challenges will open up choices for deepening customer relationships, investments in technology of the future, shift in mind-sets to truly adopt and execute future of work.

Financial institutions required to evaluate, test and implement business continuity and contingency plans along with building business innovations and operational flexibilities.

The institutions that take sensitive measures to ensure customer and employee reliefs, will be able to truly differentiate and eventually grow and sustain themselves. In summary, times will be tough but by adopting a vigilant short, medium and long-term action plan, financial services players will emerge from this crisis as stronger, confident and socially responsible institutions.

Those institutions which use the downturn to sharpen their business models are likely to gain more from the impetus which the government stimulus is likely to provide.

Few Thoughts on ground reality:

I personally feel that it's always good to have a positive outlook towards life. Most of us are focused towards growth and take care of minutest details while planning way forward in life with a view that nothing can go wrong. May it be planning a long road trip with friends to a hill station at distant places or figuring out all kind of permutations and combinations when starting a new business, we ensure that everything is in place before setting out for any task. Let me ask you one thing, did anyone of you anticipate a pandemic striking us and paralyzing the entire world? Did any of you expect the amount of damage a storm may cause? I am not saying all this to wash out the rosy picture you have in mind, but just trying to state the reality here. As much as we try to prepare ourselves against various adversities, not everything is in our control.

Risks scenarios across the world are changing; pandemics which were once in 100 years phenomenon are an occurrence every 7-8 years. Similarly, natural calamities which used to happen once in 10 years, are now occurring 5 times in a year! As we move towards digitization which is certainly the need of the hour, our exposure towards cyber threats is also increasing. The intensity and the frequency of these risks is increasing day by day. Since we can't anticipate such risks we can't assume and afford to have 'nothing can go wrong with me' attitude. It is great to have a positive outlook towards life, but we also need to be prepared for the worst with necessary tools like insurance that help you recuperate faster from any losses and be worry-free during such times.

Insurance industry too is gearing up with these rapidly changing risk scenarios. Insurers today have solutions to most of the risks we face today, right from a cyber-attack that your smartphone faces to insuring just the contents of your house if you're living on rent. However, most of the people don't even know that such covers exist. Government in its attempt to increase the penetration of insurance and safeguard the interests of citizens too has introduced health insurance and crop insurance schemes. IRDAI has also been encouraging insurers to experiment with innovative products under regulatory sandbox and is issuing guidelines to simplify health insurance products. Thus, making insurance and attractive proposition for people to opt for. However, it is disappointing that even with all these efforts put in by various stakeholders insurance is a push rather than a pull product. I firmly believe that insurance needs to be looked beyond just a tax saving tool or a requirement for loan processes. An appropriate insurance cover helps you live a life of dignity where you are able to bounce back from various unpredictable adversities without digging into your savings or borrowing money from anyone. It adds an extra level of preparedness to your plans and ensures that if anything does go wrong, you have a back-up in place to recover from any loss. Thus, keeping you worry-free and providing you with a hope that things will be back to normal even in times of despair.

Banks are playing a pivotal role with greater responsibility in fight against Covid 19 with the proactive measures and steps announced/taken by the Reserve Bank of India e.g. deferred EMI/interest/payments, asset classification, extra liquidity to the market and additional credit lines/support to borrowers. Although banks have implemented all the above measures, it is high time for them to assess the impact of the pandemic outbreak beyond this. They need to take measures with realisation that technology and governance play an important role. Furthermore, the banks in India need to address the following concerns/ issues as proactive step to maintain CAMELS and future road map:

1. Business country with interruption:

It is very important for banks to maintain continuous business and customer service amid lock down and various restrictions on working hours, staff members, mobility etc. The use of technology and digital banking at its maximum level, robustness and strong technology system is required to support it with secured banking environment.

2. Business growth in uncertain times:

As Covid 19 has affected global economy, demand /supply and GDP of the country/world-wide, the impact on business and its growth is significant. Hence, banks need to take caution and keep stability as priority over growth.

3. Risk management and quality of portfolio:

This outbreak has severely affected the risk management area of banks. It is bound to break the status quo the way it was done. So, now a new outlook and different ways are required to manage it. As all business (especially MSME) are under tremendous pressure due to lock down on their business and disrupted cash flows. Banks have to come out of with out-of-the-box ideas with additional credit support and hand holding to maintain asset quality/business continuity.

4. Managing public expectation:

Public opinion has become an important part in today's social and digital media era. Customer service and E banking two most important parameters are inevitable to manage it.

5. Regulatory compliance:

Although RBI has given certain leeway's/relaxations in reporting and asset classification norms, it is a herculean task for banks to maintain regulatory compliance in all respect. The modifications/changes amid Covid 19 are supporting but continuing it is not an easy proposition.

6. Financial status of banks:

The true picture of the balance sheet of banks is very difficult to produce /assess. In enhanced provisioning environment, increased NPA level and weathering income will affect the overall strength and rating of banks. Conducting Audit and inspection work and publically releasing authentic reports on time is very difficult task.

7. Recovery strategies in business post Covid 19:

On a positive note, we hope for the rapid end of Covid 19. Banks should make plans and strategies in advance to rescue business/asset losses through various steps like, credit support, innovative products t deal with enhanced credit cycle etc.

8.Safety and security: amid this uncertain environment and apprehended crisis post pandemic the safety and security of banks physical and digital assets are very important. Advance planning and strategy is needed to address it.

8. Embracing neo technologies – In the aftermath of the pandemic and economic uncertainties, emerging technologies will play a key role in speeding up transactions and reducing costs for banks. Indian banking sector has already realized the role of technology in achieving the reach and scale. I foresee higher rates of adoption of microservice architecture by dropping vertically integrated stacks, APIs, containerization, cloud computing, AI and blockchain. These technologies will play critical roles in digital transformation of Banks and Financial Institutions and re-imagine digital delivery of services.

9. Channels of digitization – As per the 2017 global findex report by the World Bank, India is home to the world's second largest unbanked population at 190 million adults without access to a bank account. With increased penetration of mobile and Internet, the primary focus would to accelerate technology enabled digital financial inclusion. The business focus would also be to create a gradual shift in customer preference from visiting bank branches to using digital channels. Banks will enable its customers to interact over multiple automated and digital channels to offer the optimal channel mix. Banks will consider important factors such as demographics, access to internet, last mile connectivity, customer banking behavior patterns etc. to enable effective adoption by the Indian banking consumers. According to RBI, for the financial year 2017-18, India's banking sector witnessed a spike in cyber frauds and pegged the losses at $ 13.7 million. With increased use of cashless and digital economy, it will be imperative for the banks to implement secure frameworks and systems. Some of the obvious cyber risks include financial frauds, money laundering, data loss, identity thefts and privacy breaches.

Although medicines like Covifor by CIPLA Ltd and Favipiravir by Glenmark Pharma has brought new hopes and ammunition to fight this pandemic, the long term impact of the pandemic is yet to come.

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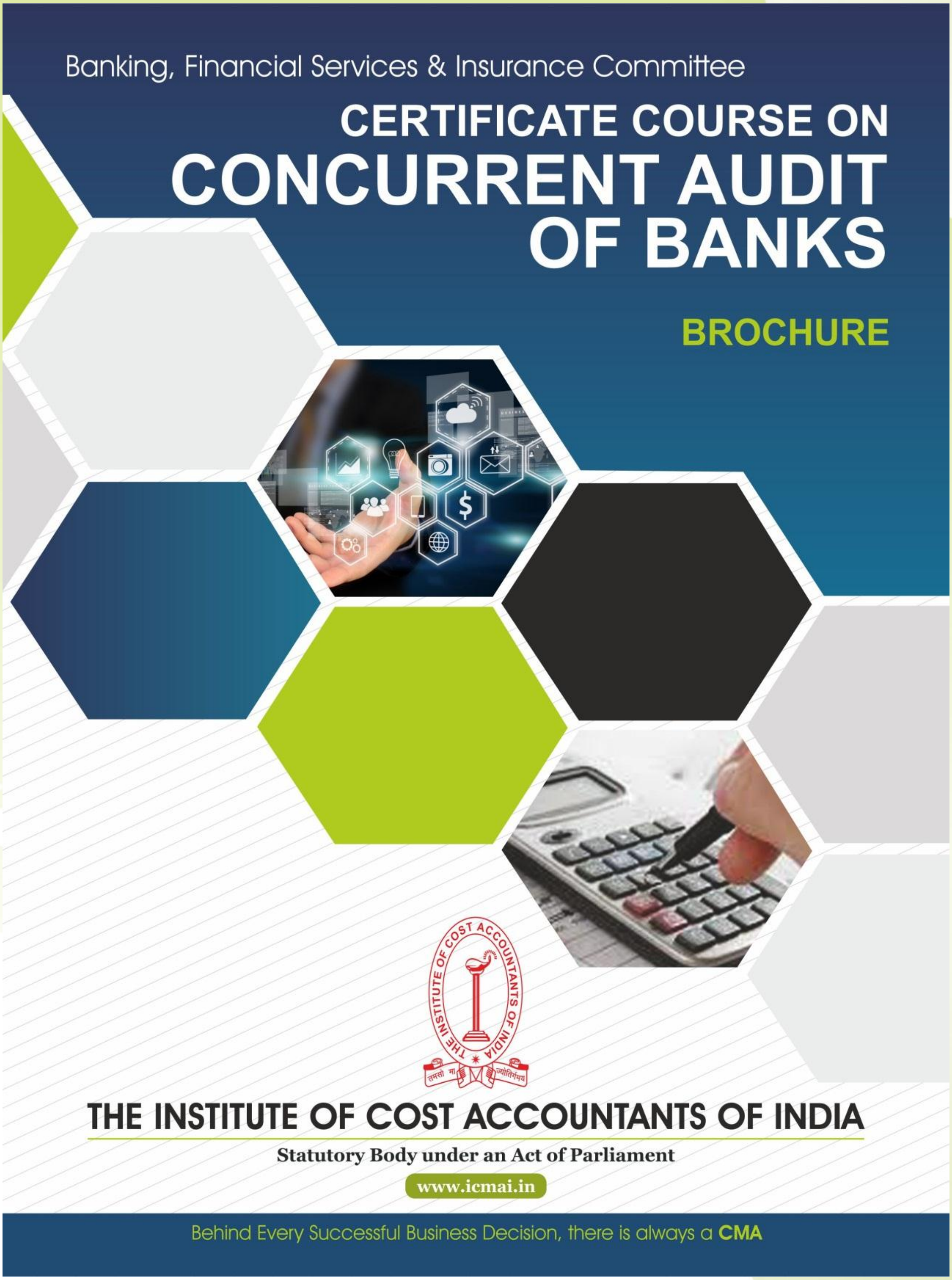

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Certificate Course on Concurrent Audit of Banks

About The Institute

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

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

International Affiliation

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

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

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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."

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

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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:

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- Stock and Book Debts Audit of Working Capital Loans/Bills Discount/TReDS.
- Income Leakage Audit.
- FEMA Audit of Category A, B, C Branches.
- KYC/AML Audit.
- Treasury Department Audit.
- Credit Audit of Rs. 5 Crores and above Advances.
- Agencies for Specialized Monitoring of Accounts (Rs. 250 Crs. and above Advance Accounts).
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1. Differentiated Banks and Banking Services.
   - 1.1 Scheduled Commercial Banks.
   - 1.2 Regional Rural Banks.
   - 1.3 Small Finance Banks.
   - 1.4 Payment Banks etc.
   - 1.5 Types of Deposits & Advances.
   - 1.6 Miscellaneous Services like Lockers, Safe Deposit Articles, Remittances, Third Party Products, Currency Chest.
   - 1.7 Alternative Delivery Channels ATMs, Internet Banking, Mobile Banking, Business Correspondents etc.
2. Types of Audit in Banks and Importance of Concurrent Audit / Concurrent Audit Procedures / e Concurrent Audit.
   - 2.1 Risk Focus Internal Audit.
   - 2.2 Credit Audit.
   - 2.3 Income Leakage Audit/Revenue Audit.
   - 2.4 Stock & Book Debts Audit.
   - 2.5 Statutory Audit.
   - 2.6 Concurrent Audit.
   - 2.7 FEMA Audit.
   - 2.8 SWIFT Audit.
   - 2.9 e-Concurrent Audit etc.
3. Role and Areas of Concurrent Auditor.
   - 3.1 Verification Transactions of Deposit, Advance Accounts.
   - 3.2 Verification of Services of the Banks like Lockers, Safe Deposit Accounts, Cash Department Procedures, Forex Transactions, Alternative Delivery Channels etc.
   - 3.3 Unit Inspection (Advance A/Cs), End-use of Funds, Verification of pending Fraud cases, Staff Accounts etc.
4. Bank Risk Management – Credit, Market and Operational Risk Areas.
   - 4.1 Credit Risk Areas.
   - 4.2 Market Risk Areas.
   - 4.3 Operational Risk Areas.
   - 4.4 Credit Policy Guidelines and Regulatory Guidelines etc.
5. Legal and Regulatory Frame Work & KYC / AML.
   - 5.1 RBI Act and Banking Regulation Act.
   - 5.2 Different Types of Charges.
   - 5.3 Limitation Act.
   - 5.4 Registration Act.
   - 5.5 Indian Stamp Act.
   - 5.6 Limitation Act.
   - 5.7 SARFEASI Act and CERSAI etc.
   - 5.8 KYC/AML Guidelines of Bank / RBI.
6. IRAC Norms / Provisions and Capital Adequacy Ratio / CRAR / Basel-III / Disclosure Requirements.
   - 6.1 Classification of Advances.
   - 6.2 Provision requirements.
   - 6.3 Capital Adequacy Ratio and its importance.
   - 6.4 Basel-III recommendations.
   - 6.5 Asset Liabilities Management.
7. Loans and Advances.
   - 7.1 Demand Loans.
   - 7.2 Term Loans.
   - 7.3 Overdrafts, Working Capital Loans and Working Capital Term Loans.
   - 7.4 Various Types of Products like Home Loans, Car Loans, Personal Loans, Mortgage Loans, Education Loans etc.
8. Non-fund-based Business
   - 8.1 Types of Bank Guarantees.
   - 8.2 Types of Letters of Credits.
   - 8.3 Margins, Collateral Security, Standard formats of BGs / LCs, Commission on BGs / LCs.
9. Credit Process: Pre-sanction, Sanction & Post-sanction
   - 9.1 KYC, Verification of Application / Project Report, CIBIL, CIC Reports.
   - 9.2 Appraisal, Projections etc.
   - 9.3 Verification of Proposal, Sanction and Submission of Control Forms.
   - 9.4 Documentation, Creation of Charges, Equitable Mortgage, Disbursement, End Use of Funds etc.
10. Common Serious Lapses in Sanction, Follow-up & Documentation
    - 10.1 Non-adherence of Delegation of Powers.
    - 10.2 Short / Excess / Double Finance.
    - 10.3 Take-over Norms.
    - 10.4 Diversion of Funds / End-use of funds.
    - 10.5 Wrong Documentation, Less Stamping on Documentation, Time-barred Documents.
    - 10.6 Units Inspection, Non-obtention of Stock Statements, Coverage of Insurance for both Primary and Collateral Security, Initiation of legal measures for recovery, monitoring of SMA-0 to SMA-2 etc.
11. Forex Transactions – Inward & Outward Remittances
    - 11.1 Opening of NRE / NRO / FCNR / RFC accounts.
    - 11.2 Purchasing of Foreign Currency Cheques / Currency / Export Bills – Forex Rates – Card Vs. Fine Rates.
    - 11.3 Selling of Foreign Currency Drafts / Currency / Import Bills etc.
    - 11.4 Submission of R-Returns to RBI.
    - 11.5 Verification of SWIFT Message Inward / Outward – Bank / RBI Guidelines.
    - 11.6 Nostro, Vostro and Loro Accounts etc.
12. Pre-shipment and Post-shipment Export Finance
    - 12.1 UCPDC Guidelines – FEDAI Guidelines – FEMA Guidelines.
    - 12.2 Pre-shipment packing credit Advance.
    - 12.3 Discounting of Export Bills / Import Bills payment etc.
13. Treasury and Investment Audit Part-I
    - 13.1 Organization Structure of Treasury Department – Front, Mid, Back Office Functions.
    - 13.2 Investment Policy Manual of the Bank
    - 13.3 Integrated Treasury – Money Market, Capital Market, Forex Market Products etc.
    - 13.4 Held-to-Maturity, Available-For-Sale, Held-For-Trading etc.
14. Treasury and Investment Audit Part-II
    - 14.1 FIMMDA Guidelines on Money Market / Dealers.
    - 14.2 RBI Guidelines on Treasury Department.
    - 14.3 Empanelment of SEBI Authorised Dealers for Sale and Purchase of Investments and payment of Commission.
    - 14.4 Non-performing Investment guidelines of RBI.
    - 14.5 Job Rotation of Dealers – Usage of Bloomberg in Treasury etc.
15. Operational Risk Management – ORM-I
    - 15.1 Job Rotation–Staff Attendance-Branch Documents–Security Systems (Fir-Extinguisher, Smoke Detectors, Gun Licences etc.), Currency Chest Fitness Certificate–Disaster Recovery Management–Business Continuity Plan etc.
    - 15.2 Safe Deposit Lockers, Safe Deposit Articles, Deceased Claims Settlement etc.

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

Courses Launched by the BFSI Department

CERTIFICATE COURSE ON CONCURRENT AUDIT OF BANKS

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 Nisha Dewan, Addl. Director at pd.hod@icmai.in
CMA Rajendra Bose, Head, Banking, Financial Services and Insurance Department & Joint Director at bfsi.hod@icmai.in
CMA Dibbendu Roy, Joint Director at bi@icmai.in

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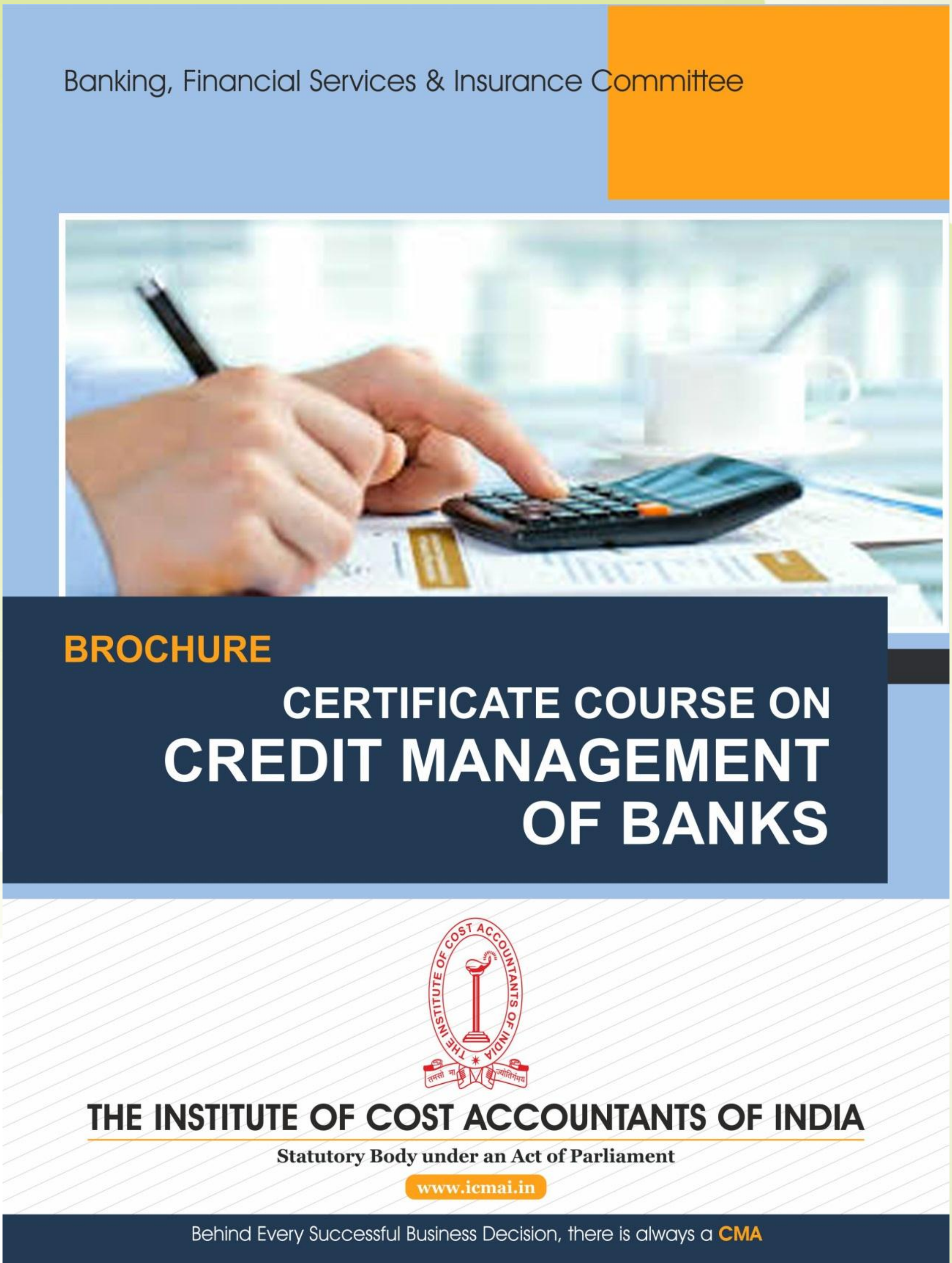
CERTIFICATE COURSE ON CREDIT MANAGEMENT OF BANKS



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CERTIFICATE COURSE ON CREDIT MANAGEMENT OF BANKS

Certificate Course on Credit Management of Banks

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

Institute's Network

Institute's headquarters is situated at Kolkata with another office at New Delhi. The Institute operates through four Regional Councils at Kolkata, Chennai, Delhi and Mumbai as well as through 107 Chapters situated in India, 10 Overseas Centres abroad, 2 Centres of Excellence, 51 CMA Support Centres and 434 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).**

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.

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Courses Launched by the BFSI Department

CERTIFICATE COURSE ON CREDIT MANAGEMENT OF BANKS

Detailed Course Content

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

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

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

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

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

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

✓ **Other Credits (Module 4)**

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

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

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

Courses Launched by the BFSI Department

CERTIFICATE COURSE ON CREDIT MANAGEMENT OF BANKS

Certificate Course on Credit Management of Banks

Detailed Course Content

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

Contact for further queries

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Courses Launched by the BFSI Department

CERTIFICATE COURSE ON TREASURY AND INTERNATIONAL BANKING

Courses Launched by the BFSI Department

CERTIFICATE COURSE ON TREASURY AND INTERNATIONAL BANKING

Certificate Course on Treasury and International Banking

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Course Objectives

Treasury Management is an essential function of a Bank or any Entity dealing with Large volume of funds. With the increased Globalization of Markets, it has become essential to have an in-depth knowledge of the functioning of the Domestic Money and Debt Markets as also the Foreign Exchange Markets for effective management of funds.
On account of several Policy measures undertaken by Reserve Bank of India (RBI) and other Regulatory Authorities, different segment of financial markets (Money, Securities, Foreign Exchange and Derivatives Markets) have witnessed significant growth and development in terms of new financial instruments, number of players, volume of business, etc.
In the light of such developments, treasury functions in Banks, FIs and Corporates have grown manifold and therefore have become challenging to manage. Therefore, it has become indispensable for Banks, Financial Institutions and Corporates to make their newly inducted treasury officers well versed with various segment of the financial market, different products and operations, so that they not only serve their clients better, but also manage the risks inherent in Treasury.
Practicing CMAs who dealing with their Clients are in one way or other linked to Finance and Financial related Issues. Hence, they should possess Good knowledge of 'Treasury Operations', so that they can provide Value Addition Services to their Clients.
Treasury Operations of Banks and Commercial Organizations are more are less with difference of Regulatory Compliance. Even in small business entities, Treasury Operations helps a lot to minimize the Cost of Borrowings and Maximize the Yield on Investments etc.
In addition to the above, this course is also useful to CMAs who are: -

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

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

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

CEP Hours: 10 hours
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Courses Launched by the BFSI Department

CERTIFICATE COURSE ON TREASURY AND INTERNATIONAL BANKING

Certificate Course on Treasury and International Banking

Syllabus

SECTION - 1

a. Introduction to the Money Market:

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

b. Capital Markets:

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

c. Foreign Exchange Markets:

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

d. External Markets:

- ✓ External Commercial Borrowings
- ✓ GDRs / ADRs

e. Derivatives Markets:

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

SECTION - 2

a. Scope and Function of Treasury Management:

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

b. Domestic Cash Management:

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

c. Cost Centre / Profit Centre:

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

d. Liquidity Management:

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

e. Treasury's Role in International Banking:

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

f. Revaluation Mark to Market and Profit Calculations:

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

SECTION - 3

a. Introduction:

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

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CERTIFICATE COURSE ON TREASURY AND INTERNATIONAL BANKING

Certificate Course on Treasury and International Banking

Syllabus

b. Measurement and Control of Risk:

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

c. Assets Liability Management:

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

d. Hedging the Risk:

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

Contact for further queries

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Activities of the BFSI Department

ACTIVITIES OF BANKING, FINANCIAL SERVICES AND INSURANCE DEPARTMENT FROM JULY 2019 TO JULY 2020

1. **Launch of courses on Certificate Course on Credit Management of Banks, Concurrent Audit of Banks and Treasury and International Banking**: The Committee has launched three courses for the members and registration has started for the courses.

Ø Certificate Course on 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

§ Brief of the course

- ✓ Differentiated Banks and Banking Services,
- ✓ Types of Audit in Banks and Importance of Concurrent Audit / Concurrent Audit Procedures / e Concurrent Audit,
- ✓ Role and Areas of Concurrent Auditor, Bank Risk Management – Credit, Market and Operational Risk Areas,
- ✓ Legal and Regulatory Frame Work & KYC / AML, IRAC Norms / Provisions and Capital Adequacy Ratio / CRAR / Basel-III / Disclosure Requirements,
- ✓ Loans and Advances, Non-fund-based Business, Credit Process: Pre-sanction, Sanction & Post-sanction, Common Serious Lapses in Sanction, Follow-up & Documentation,
- ✓ Forex Transactions – Inward & Outward Remittances, Pre-shipment and Post-shipment Export Finance,
- ✓ Treasury and Investment Audit Part-I, Treasury and Investment Audit Part-II, Operational Risk Management – ORM-I, Operational Risk Management – ORM-II, Detection, Classification & Reporting of Frauds,
- ✓ Tools for Concurrent Audit of Banks, Audit in CBS / TMS Environment – Banking / Treasury Software, Bank Panel Discussion (DGM / GM of Audit Dept.)

Ø Certificate Course on Credit Management of Banks

§ The Course provides a holistic insight into the various dimensions in Bank Credit Management.

§ Brief of the course

- ✓ Introduction & Overview of Credit,
- ✓ Analysis of Financial Statements,
- ✓ Working Capital Management,
- ✓ Other Credits, Monitoring,
- ✓ Supervision & follow up and
- ✓ Management of Impaired Assets

Ø Certificate Course on Treasury and International Banking

§ The Course provides a holistic insight into the various dimensions in Treasury and Forex Management.

§ Brief of the course

- ✓ Classification of Treasury Market, Money Market,

- ✓ Types of Interest / Yield Rate Quotations, FIMMDA, Role of CCIL and Products – CBLO (Collaterized Borrowing and Lending Obligation), NDS-OM, CROMS, Money Market Instruments, Government Securities ,Repurchase Agreements (REPOS / Reverse Repo), RBI Money Market Operations like Sterilization and Non-Sterilization
- ✓ Capital Markets ,Primary & Secondary Market, Principles of Valuation-Settlements of Transactions, Bond Market – Types and its Futures, Corporate Bonds, Zero Coupon Bonds ,Perpetual Bonds,
- ✓ Understanding Current Yields, YTM, Changes in Yields, Different Maturities of Treasury Bonds, Revaluation – Mark to Market and Profit Calculations,
- ✓ Negative list of investments, Guidelines on Non-performing investments, Commodity Market, Structure of Commodity Market, Leading Commodity Exchanges in India, Commodity Futures Trading in India, Linkage Domestic with Foreign Operations.

2. **Conduct of Webinars**: The Committee conducted 18 webinars as on date on various topics in the fields of Banking, Insurance, Financial Services, FEMA and others.

The lists are stated as follows:

Sl. No.	Date and Time	Topic	Speaker
1.	9th March, 5 pm to 7pm.	Role of CMAs in Banking Sector	CMA Mohan V Tanksale, Former Chief Executive, Indian Banking Association
2.	10th March, 4-30 pm to 6-30 pm	Overview of Credit Management of Commercial Banks	Shri Prabir Kumar Dutta, Former General Manager, United Bank of India
3.	12th March, 4-30 pm to 6-30 pm.	Trade Receivables Discount Scheme (TReDS)	CMA Dr.P. Siva Rama Prasad, Former AGM, SBI
4.	28th March, 4-30 pm to 6-30 pm.	Enterprise Risk Management - A Strategic Imperative for Organizational Sustainability	CMA Delzad D Jivaasha, Associate Vice President-Enterprise Risk Management and Finance, ICICI Lombard General Insurance Co.Ltd.
5.	11th April 12 pm to 1 pm	GST on Bank and Insurance Sector	CMA Susanta Saha ,Tax and Management Consultant
6.	12th April, 11am -12 noon	Audit of Health Insurance Companies	CMA C. Veeraraghavan, Former Dy.Accountant General of C & AG of India
7.	26th April, 8 to 9-30 am	Impact of COVID 19 and Strategies for Banking Sector	CMA (Dr) Shilpa Parkhi, Practising Cost Accountant
8.	3rd May, 12 pm to 1 pm	Audit of Fire and Engineering Insurance Administration at General Insurance Companies	CMA C. Veeraraghavan, Former Dy.Accountant General of C & AG of India
9.	10th May, 12 pm to 1 pm	Audit of Reinsurance department in a General Insurance companies	CMA C. Veeraraghavan, Former Dy.Accountant General of C & AG of India
10.	14th May, 4 to 6 pm	Forex and Role of CMAs in FEMA	Shri Shreedharan Chakravarthy, Former General Manager of the Reserve Bank of India.
11.	17th May, 12 pm to 1 pm	Audit of Marine Insurance administration at General Insurance Companies	CMA C. Veeraraghavan, Former Dy.Accountant General of C & AG of India
12.	24th May, 12 pm to 1 pm	Audit of Investment functions at General Insurance Companies	CMA C. Veeraraghavan, Former Dy.Accountant General of C & AG of India
13.	24th May, 4 to 6 pm	Agencies for Specialized Monitoring (ASM)	CMA Dr. P.Siva Prasad, Former AGM of SBI

14	26th May, 1-30 to 3-30 pm	Instant Opportunities to Practising CMAs - Emergency Credit Line Guarantee Scheme	CMA Dr. P.Siva Prasad, Former AGM of SBI
15	7th June,1-30 to 2-30 pm	Debit Card/ Credit Card Fraud with dos/don'ts and SOPs.	Shri Subhendu Chakraborty, Cyber Security Consultant
16	14th June,12 to 1 pm	Financial Frauds through online Phishing sites and/or fraudulent emails' links with do's/don'ts and SOPs.	Shri Subhendu Chakraborty, Cyber Security Consultant
17	21st June,12 to 1 pm	Financial Scams through Dark Web and related crimes and the related security tips.	Shri Subhendu Chakraborty, Cyber Security Consultant
18	23rd June,1 to 2 pm	Online Money Laundering, Identity Theft, etc and safety guidelines.	Shri Subhendu Chakraborty, Cyber Security Consultant
19	3rd July,3-30 to 5-30 pm	Dynamics in a Life Insurance Organisation	CMA P Narasimha Murthy, Insurance Consultant
20	10th July, 4-5 pm	Opportunities in Insurance Organisations	CMA P Narasimha Murthy, Insurance Consultant
21	17th July, 4-5 pm	Insurance Education for CMAs	CMA P Narasimha Murthy, Insurance Consultant
22	19th July 10 am -12 pm	Credit Management of Banks	CMA Dr. P. Siva Rama Prasad, Former AGM, SBI
23	20th July 4-5 pm	Basic Principles of Insurance	CMA P Narasimha Murthy, Insurance Consultant

3. **Conduct of WEBINTs:** The Committee as on date conducted 5 WEBINTs and brought in luminaries of Banking, Insurance, Financial Services and from Economics fields.

The details are stated as follows:

List of WEBINTs conducted by the Banking and Insurance Committee in 2020

Sl. No.	Date and Time	Topic	Speakers
1.	8th May, 4 to 6 pm	Impact of COVID-19 and Strategies for the Insurance Sector	1. CMA G.Srinivasan, Director of National Insurance Academy and Former CMD of New India Assurance Co. Ltd. 2. Shri K.B. Vijay Srinivas, Former Joint CMD of Oriental India Insurance Co. Ltd. 3. CMA P.Narasimha Murthy, Insurance Consultant 4. CMA C.Veeraghavan, Former Dy.Accountant General in C & AG 5. CMA Shiba Prasad Padhi, Former Chairman of EIRC of ICAI and Insurance Consultant
2.	27th May,3-30 to 6 pm	Impact of Covid-19 and strategies for the Banking Sector	1. CMA Mohan V Tanksale, Strategic Consultant of SWIFT India and Former Chief Executive of Indian Banking Association and Former CMD of Central Bank of India 2. Dr. Charan Singh, Chief Executive, EGROW Foundation 3. Shri Mrutyunjay Mahapatra, OSD,Canara Bank 4. Shri Ashok Kumar Pradhan, OSD,Punjab National Bank 5. Shri Samuel Joseph Jebaraj, Deputy Managing Director of IDBI Bank 6. CMA Dr. Shilpa Parkhi, Practising Cost Accountant
3.	12th June, 3-30 to 6 pm	WEBINT on Impact of	1. Smt Deena Mehta, Former President of BSE and Group Managing Director of Asit C Mehta of Companies (Moderator of

		COVID-19 on Financial Services and Strategies for Investors: Series 1	the Session) 2. CMA B.Renganathan, Executive Vice-President and Company Secretary,Edelweiss Financial Services Limited 3. CMA Dr.Latha Chari, Professor, National Institute of Securities Markets (An educational initiative by SEBI) and 4. Shri Pradeep Ramakrishnan, General Manager,Corporate Finance Department of SEBI
4.	22nd June, 3-30 to 6 pm	WEBINT in the form of Panel Discussion o n the topic 'India in the Global Economy 2021	1. Dr. Charan Singh, Chief Executive, EGROW Foundation and Moderator of the Session 2. Dr.Sugata Marjit, Economist and Distinguished Professor , Indian Institute of Foreign Trade 3. CMA Subhash Chandra Garg, Former Finance Secretary, GoI & IAS Officer 4. CMA Kunal Banerjee,Former President of The Institute of Cost Accountants of India
5.	24th June, 4 to 6 pm	WEBINT on Impact of COVID-19 on Financial Services and Strategies for Investors: Series II	1. Smt Deena Mehta, Former President of BSE and Group Managing Director of Asit C Mehta of Companies (Moderator of the Session) 2. CMA Navneet Munot, Executive Director and CIO of SBI Mutual Fund. 3. CMA Dhiraj Sachdev,Managing Partner and CIO, Roha Asset Managers LLP
6.	8th July, 5-7 pm	WEBINT on "Capacity Building for the lending Institutions Post COVID-19 "	1.CMA Suresh Khatanhar, Deputy Managing Director of IDBI Bank, Chief Guest for the event 2.CMA M.K.Bhattacharya, Executive Director of Indian Bank, Guest of Honour for the event 3.CMA Saikat Roy, Director, West, Care Ratings Limited, Guest of Honour for the event 4. CMA Mohan V Tanksale, Former Chief Executive of Indian Banking Association, Moderator of the session 5.CMA Dr. P.Siva Rama Prasad, Former AGM of SBI, Chief Architect for formulation of the courses

4. **BFSI Chronicle:** The Committee launched the 1st issue of Banking, Financial Services and Insurance Chronicle in the month of May, 2020 and the 2nd issue for July, 2020 is being brought out by the Committee.

5. **Release of Guidance Note:** The Banking and Insurance Committee prepared the 'Guidance Note on Internal Audit of General Insurance Companies' for the members and others and it was circulated to all Insurance Companies for their information. The Committee further prepared a Supplementary Guidance Note on the Impact of COVID-19 and future strategies for Internal Audit of General Insurance Companies which would be submitted to IRDAI and all the Insurance Companies for their benefit.

6. **Online Survey on MSME:** The Banking and Insurance Committee had taken an online survey amongst our members on the impact of COVID-19 in MSME sector and a sizable number of members had given their feedback. The Committee had prepared an advisory based on the suggestions and feedback to be represented to the Hon'ble Minister of MSME for policy formulation and betterment on the life and livelihood of MSME sector.

7. **Suggestions to IRDAI**: The Committee has also submitted Suggestions for Insurance Sector due to onslaught of COVID-19 to IRDAI and Ministry of Finance, Guidelines on Standardization of General Clauses in Health Insurance Policy Contracts, Exposure Draft of IRDAI (Insurance Surveyors and Loss assessors) (Amendment) Regulations, 2019.

8. **BFSI Database:** A repository of members working in Banking, Financial Services and Insurance (BFSI) are being done to form database of members working in those fields. The Committee has started preparing such and is continuously being updated.

9. **Meeting with top management of Public Sector and Private Banks:** The Chairman and others had met Shri Pallav Mohapatra, MD of Central Bank of India, Shri Atanu Das, MD of Bank of India, Shri Atul Goel,MD & CEO of UCO Bank, Shri Rajkiran Raj G, MD & CEO of Union Bank of India, Shri Debashish Mukherjee ,ED Canara Bank, Shri Mrutyunjoy Mohapatra, MD & CEO of Syndicate Bank and also CMA Jaimin Bhatt, CFO of Kotak Bank for enhancing professional opportunities for members.

10. **Meeting with various captains in Insurance Sector:** The Chairman met with CMA G.Srinivasan, Director, National Insurance Academy, Shri Deepak Godbole, Secretary General, Insurance Institute of India and Dr.J.N.Misra, CEO, Indian Institute of Banking & Finance along with others to enhance the scope of CMAs in Insurance sector and collaborate in various fronts.

11. **Meeting with Officials of Indian Banking Association:** The Chairman also met Shri Rajkumar B., Deputy Chief Executive and other Officials of Indian Banking Association for enhancing the scope of the CMAs.

12. **Meeting with Officials of of Institute of Banking Personnel Selection:** The Chairman met the Shri B.Hardeesh Kumar,Director of Institute of Banking Personnel Selection and others to include CMAs in Banking Examination conducted by IBPS.

13. **Meeting with top Officials of Reserve Bank of India:** The Chairman met the top Officials of Reserve Bank of India for inclusion of CMAs in concurrent audit. CMAi P. Vasudevan, Chief General Manager , Department of Payment and Settlement Systems and others in the concurrent audit cell.

14. **Launch of Banking and Insurance Portal of the Institute:** The Banking and Insurance launched the Banking and Insurance portal which is necessary to apprise the members of all developments of the Banking and Insurance fields. The portal will benefit all the members about all BFSI updates and notification of relevance. It would also host all the modalities of the courses run by the BFSI Department.

15. **Participation with ASSOCHAM programme:** The Institute associated with ASSOCHAM for organizing 12th Global Insurance Summit-'Making India a Fully Insured Society'

16. **Webinar with Indian Chamber of Commerce:** The Institute participated with Indian Chamber of Commerce an E-Conference on the topic Quantitative Easing and Credit Risk. President of the Institute was also a speaker with the doyens of Banking Fraternity.

BFSI Updates

UPI payments bounce back; soar to record high in June after nose-diving in April due to lockdown

Unified Payments Interface (UPI) payments in June soared to a record high of 1.34 billion in terms of volume with India starting to limp towards normalcy amid the coronavirus pandemic.

In June, the transaction value touched nearly Rs 2.62 lakh crore, according to the latest data by National Payments Corp of India (NPCI).

Unified Payments Interface (UPI) payments in June soared to a record high of 1.34 billion in terms of volume with India starting to limp towards normalcy amid the coronavirus pandemic. In June, the transaction value touched nearly Rs 2.62 lakh crore, according to the latest data by National Payments Corp of India (NPCI). UPI is not the only digital payments method that has shown an upward trend. Others such as IMPS and NETC FASTag have also reported spurt as compared to May figures.

In April 2020, the number of transactions was recorded at 999 million worth Rs 1.51 lakh crore, the first full month when the lockdown was in full swing and almost all services, except essentials were halted. Gradually, online payments gathered pace from May, as the government allowed staggered opening of the economy. The number of UPI transactions stood at 1.23 billion valued at Rs 2.13 lakh crore in May, according to the latest NPCI data.

UPI payments have risen sequentially from Rs 2.18 trillion in May to Rs 2.62 trillion in June. Compared to the year-ago period, the NPCI-founded payments method grew 78% from 1.46 trillion in June 2019. The government-run UPI had recently achieved an important mark and payments via the interface marked 100% rise on-year in January this year. In January 2020, the value of UPI transactions crossed Rs 2 lakh crore mark.

RBI announces special OMOs, to buy and sell G-secs worth Rs 10,000 crore each

The central bank is looking to sell treasury bills maturing in 2020 and 2021, while intending to buy government securities maturing between 2027 and 2033.

The Reserve Bank of India (RBI) announced the much-awaited special open market operations (OMOs) wherein it is intending to simultaneously buy long-term securities and sell short-dated securities worth Rs 10,000 crore each.

The central bank is looking to sell treasury bills maturing in 2020 and 2021, while intending to buy government securities maturing between 2027 and 2033 and accordingly the auction will be held. Market participants say the announcement is in line with expectations and is expected to keep a tab on bond yields.

The benchmark yield had recently hit over one-month high levels due to consistent supply of central government securities and the absence of any measures from RBI to absorb the excess supply of bonds. The government has been borrowing more than the notified weekly amount over the last few weeks. Dealers had earlier said unless the central bank steps in to absorb some of the additional supply of bonds, yields may spike in coming times.

IDBI Bank selling its stake in IDBI Federal Life Insurance

IDBI Federal Life Insurance has issued over 13 lakh policies and has total assets under management of Rs.9,107 crore and a capital base of over 800 crores, as on March 31, 2019. IDBI Bank announced its plan to divest 27% of its stake in IDBI Federal Life Insurance Company to its existing partners. IDBI Bank will sell 23% to Ageas Insurance and 4% to Federal Bank at a combined value of about Rs. 595 crore.The Company has been formed by a three-way joint venture between IDBI Bank, Federal Bank and Ageas Insurance. As on March 2020, IDBI Bank holds 48% in the IDBI Federal Life Insurance while Federal Bank and Ageas Insurance has 26% each respectively in the insurance company. After this stake sale, IDBI Bank's holding in the insurer will come down to 21%, while Ageas Insurance share would go up to 49%. Even Federal Bank's share would go up to 30% post the stake sale in the IDBI Federal Life Insurance.

Currently Life Insurance Corporation of India (LIC) holds 51% stake in IDBI Bank and has its own insurance business. According to the insurance regulations an entity holding more than 10% is considered as a promoter while one holding below 10% is considered as an investor.

Ordinance to bring cooperative banks under RBI regulation notified

The Banking Regulation Act (amendment) Ordinance enables cooperative banks to raise money via public issue and private placement, of equity or preference shares and unsecured debentures, subject to the central's bank's approval.

The Government notified a proposed ordinance to bring urban as well as multi-state cooperative banks under the RBI regulation and make it easier for them to access capital. The idea is to protect the interests of depositors and better scrutinise the affairs of these cooperative banks following the Punjab Maharashtra Cooperative (PMC) Bank crisis.

The Banking Regulation Act (amendment) Ordinance enables cooperative banks to raise money via public issue and private placement, of equity or preference shares and unsecured debentures, subject to the central's bank's approval. Under the extant norms, cooperative banks' access to capital is limited.

The Ordinance seeks to protect the interests of depositors and strengthen cooperative banks by improving governance and oversight by extending powers already available with the RBI in respect of other banks to cooperative banks as well for sound banking regulation.

RBI extends enhanced borrowing limit under Marginal Standing Facility till September 30, 2020

On March 27, the minimum daily maintenance of the CRR was reduced from 90 per cent of the prescribed CRR to 80 per cent till June 26, 2020. Amid the ongoing economic woes created by the coronavirus pandemic, the Reserve Bank has decided to extend the enhanced borrowing facility provided to the banks to meet their liquidity shortages till September 30. The RBI, as a temporary measure, had increased the borrowing limit of scheduled banks under the marginal standing facility (MSF) scheme from 2 per cent to 3 per cent of their Net Demand and Time Liabilities (NDTL) with effect from March 27, 2020. Under the MSF, banks can borrow overnight funds at their discretion by dipping into the Statutory Liquidity Ratio (SLR). This relaxation, which was granted till June 30, 2020, has now been extended till September 30. "On a review, it has now been decided to extend this enhanced limit till September 30, 2020," the Reserve Bank of India (RBI) said in a circular.

Banks may continue to access overnight funds under the MSF against their excess SLR holding, it added. The marginal standing facility rate currently stands at 4.25 per cent. The RBI has also extended the relaxation on the minimum daily maintenance of the Cash Reserve Ratio (CRR) at 80 per cent for a further period of three months till September 25, 2020.

On March 27, the minimum daily maintenance of the CRR was reduced from 90 per cent of the prescribed CRR to 80 per cent till June 26, 2020. This was done in view of the continuing of hardships faced by banks in terms of social distancing of staff and consequent strains on reporting requirements.

New draft norms: 50% of HFCs' assets must be housing loans

The proposed norms come months after the blowout at DHFL, where a chunk of retail loans were found to have been diverted to group companies. In a proposed review of the existing norms for housing finance companies (HFCs), the Reserve Bank of India (RBI) clearly defined the 'housing finance' business. The regulator defined HFCs as those that have 50% assets as housing loans and 75% of which should be for individual homebuyers. The proposed norms come months after the blowout at DHFL, where a chunk of retail loans were found to have been diverted to group companies. Housing companies will be allowed to achieve this target in a staggered manner — 60% by March 31, 2022, 70% by March 31, 2023, and 75% by March 31, 2024.

In order to address concerns on double financing due to lending to construction companies in the group and also to individuals purchasing flats from the latter, the HFC concerned may choose to lend only at one level, the central bank proposed. It stated that the HFC can either undertake an exposure on the group company in real estate business, or, lend to retail individual homebuyers in the projects of group entities but not do both," the proposed guidelines said.

RBI forms group to review ownership for private banks

The development gains significance in light of the year-long legal battle which ended in January this year, with the RBI allowing Uday Kotak, the promoter of Kotak Mahindra Bank, to bring his stake down to 26% by August 2020 while capping his voting rights at 15%.

The Reserve Bank of India has constituted an internal working group to review ownership guidelines and corporate structure for private banks. The central bank released the terms of reference for a new committee to review the extant guidelines governing ownership and corporate structure for private banks. The working group will take into account key developments over the years, which have a bearing on the issue of ownership. The review would provide an opportunity to harmonise norms applicable to banks set up at different time periods, irrespective of the date of commencement of business, said the central bank.

The committee will also be tasked with suggesting appropriate norms, keeping in mind the issue of excessive concentration of ownership and control, and having regard to international practices as well as domestic requirements.

RBI proposes major changes in securitisation norms

The Reserve Bank of India proposed major changes in securitisation norms aimed at development of a strong and robust market for the same in the country.

Securitisation involves transactions where credit risk in assets are redistributed by repackaging them into tradeable securities with different risk profiles which may give various investors access to exposures which they otherwise will be unable to access directly.

The RBI said the revision in guidelines is an attempt to align the regulatory framework with the Basel guidelines on securitisation that have come into force effective January 1, 2018.

One of the salient features of the draft securitisation guidelines as compared to the existing guidelines includes, Only transactions that result in multiple tranches of securities being issued reflecting different credit risks will be treated as securitisation transactions.

In line with the Basel-III guidelines, two capital measurement approaches have been proposed – Securitisation External Ratings Based Approach (SEC-ERBA) and Securitisation Standardised Approach (SEC-SA).

The draft guidelines has prescribed a special case of securitisation, called Simple, Transparent and Comparable (STC) securitisations with clearly defined criteria and preferential capital treatment.

The definition of securitisation has been modified to allow single asset securitisations. Securitisation of exposures purchased from other lenders has been allowed, according to the revised guidelines.

These guidelines are applicable to all banks; All India Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI); and, non-banking financial companies including housing finance companies.

Contact Details

CMA Chittaranjan Chattopadhyay
Chairman
Banking & Insurance Committee
82404 78286

CMA Nisha Dewan
Addl. Director
&
Secretary
Banking & Insurance Committee
98914 80860

CMA Rajendra Bose
Head - Banking, Financial Services and Insurance Department and **Joint Director**
9007068555

CMA Dibbendu Roy
Joint Director
96434 43047

E-mail: bi@icmai.in

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www.icmai.in

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

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