BANKING FINANCIAL SERVICES AND INSURANCE (BFSI)

CHRONICLE

1st VOLUME - MAY 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

MISSION STATEMENT

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

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 104 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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CMA Biswarup Basu	Vice-President

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President's Message

CMA Balwinder Singh
President
The Institute of Cost Accountants of India

It gives me immense pleasure to announce that the Banking & Insurance Committee of the Institute is launching the initial issue of Banking, Financial Services and Insurance (BFSI) Chronicle on the Foundation Day of the Institute on 28th May, 2020.

I congratulate **CMA Chittaranjan Chattopadhyay**, Chairman of Banking and Insurance Committee and other members of the committee for an excellent initiative for the benefit of stakeholders at large.

The banking & financial services sector plays an important role in the modern economic world. The Insurance sector in India is one of the most booming sectors of the economy. The publication is intended to enrich the readers about the Banking, Financial Services and Insurance sector of our economy by providing current updates and value added articles from the experts. I hope the readers and all stakeholders will find this publication of immense benefit.

I express my gratitude to our resource persons for their valuable inputs and contribution in this first edition. I also acknowledge the dedicated efforts of Secretariat of the Committee for their support to the excellent initiative of launching of Banking, Financial Services and Insurance (BFSI) Chronicle.

My best wishes to Banking and Insurance Committee for their future endeavours.

Warm regards,

CMA Balwinder Singh

Vice - President's Message

CMA Biswarup Basu
Vice-President
The Institute of Cost Accountants of India

I am happy to note that the Banking and Insurance Committee is bringing out the first edition of Banking, Financial Services and Insurance (BFSI) Chronicle on the auspicious day i.e. the Foundation Day of the Institute on 28th May, 2020. I feel that the chronicle would provide enthusiasm to the members to grasp the different intricate issues in the Banking, Financial Services and Insurance areas.

I wish to express my sincere thanks to CMA Balwinder Singh, President of the Institute for his guidance and support for the professional development of the members.

I compliment CMA Chittaranjan Chattopadhyay, Chairman and other members of the Banking and Insurance Committee for the efforts in bringing out this BFSI Chronicle and hope that the Committee would bring out various such publications for our members in coming days. I would like to thank our advisors, resource persons and the secretariat of the Committee who had all contributed for materializing the inaugural issue.

I also feel that in this hour of crisis which is gripping the world we have to fight it out by synergizing our strengths in shaping for a better tomorrow.

Biswarup Basu

CMA Biswarup Basu

Chairman's Message

CMA Chittaranjan Chattopadhyay
Chairman - Banking and Insurance Committee
The Institute of Cost Accountants of India

"Take up one idea. Make that one idea your life -- think of it, dream of it, live on that idea. Let the brain, muscles, nerves, every part of your body, be full of that idea, and just leave every other idea alone. This is the way to success."

Dear Sir/Madam,

Hope you are doing, rather fighting well and are taking adequate care to stay safe amidst this deadly pandemic.

The impact of COVID-19 on the lives and livelihood of all cross-sections of people of our country is unfathomable. Now we are at Lockdown 4.0 and in the scenario of "New Normal" where Information Technology and IT enabled services thereof is the only gateway to a connected world.

The Committee, in its roadmap, as enunciated in the meeting held, had planned to launch the BFSI Chronicle to disseminate various issues in the Banking, Financial Services and Insurance areas. With the aim in fructifying our goals, we are happy to announce that the first Banking, Financial Services and Insurance (BFSI) Chronicle is inaugurated today i.e, 28th May, 2020.

The lamp coupled with the chant embodied in the emblem of ICAI has always appeared to me like the glimmer of silver lining behind the dark cloud. 'Tamosho maa jyotirgamayah', as I feel is the philosophy of all the CMAs towards piercing of the hoodwink from the Cost figures and information thereof -- eclipsing the decision making process. It has perpetually been enlightening the cost-value-expenditure matrix for greater interest of all the stakeholders converging ultimately to the national interest. It's our conviction too that we may be able to bring sea changes in the Banking, Financial Services and Insurance(BFSI) scenario -- as compatible to the current pandemic backlash suffered by our country; the instant Chronicle published by our beloved President, ICAI, on this auspicious foundation day of ICAI might be a threshold leading towards that.

The chronicle has covered various articles on the Banking, Capital Markets and Insurance Sector. We feel that the Chronicle would be a horizon unfolder for thought to equip, educate and enhance knowledge in the respective fields.

The Banking and Insurance Committee of ICAI had taken a series of activities since July, 2019 starting with an exclusive portal dedicated for the updates on Banking, Financial Services and Insurance. We upload regular updates, circulars and other information relevant for the valued members. Being entrusted as the Chairman of the Committee, I humbly put forth that our team had prolifically conducted series of meetings with the apex management of the Banks and Insurance Companies. We exchanged our ideas with the MDs and CEOs of various PSUs and Private Banks along with behemoths of Insurance Sector both in National and Private spheres. The Committee was instrumental in having joint programmes with Chambers of Commerce to permeate our views in the Banking and Insurance arena. We had a series of meetings too with the experts in Capital Markets. We would soon be having tie-ups with various Stock Exchanges for various awareness campaigns on capital market and investment options.

The Committee published the Guidance Note on Internal Audit of General Insurance Companies what we have revisited in the context of impact of COVID-19. To respond to the clarion call of the President of our Institute towards obtaining suggestions for rehabilitation of MSME Sector due to onslaught of COVID-19, the Committee has come forward to prepare the advisories. The Committee had outlined a questionnaire for the members for short survey on MSME in the month of April 2020. Upon collating the responses from survey, the Committee prepared the suggestions and representations. The suggestions and representations were submitted to the Hon'ble Minister of MSME of Govt. of India by CMA Balwinder Singh, President of the Institute.

We respectfully thank our Hon'ble Prime Minister Shri Narendra Modi ji for his bold initiative by announcing a package of INR 20 lakh crore for the MSME sector to rejuvenate, restore and revive. We also thank Smt. Nirmala Sitharaman, Hon'ble Finance Minister for her series of resurrecting reforms for the MSMEs and all stakeholders who are affected by the COVID-19. We also thank Shri Shaktikanta Das, Governor, RBI for the stand construed by him on initiating the moratorium and loans to NBFC and reducing Repo and Reverse Rates for augmenting liquidity flow in the system. We also thank the Hon'ble Minister of MSME Shri Nitin Gadkari for his great endeavour to help MSME sector for their business continuity during this pandemic. His timely action for protecting the activities of MSMEs and removing various bottlenecks thereof is laudable.

We conducted the interactive WEBINT in form of panel discussion on Impact of COVID-19 and the Strategies of the Insurance Sector on 8th May, 2020. Lumineries from the insurance sector participated in the session as panelists. We conducted the 2nd WEBINT on Impact of COVID-19 and the Strategies of the Banking Sector on 27th May, 2020. We in our goal for knowledge dissemination had organized more than a dozen webinars since March, 2020.

We are also happy to announce that the Council has approved the formation of a Banking, Financial Services and Insurance Department (BFSI) which would continue to serve the members and students in a robust way. We hope and believe that the dedicated activities would continue with more gusto and resources. We look forward for the indulgence and support through your critical comments for improvement and value addition to our endeavour in bringing out subsequent publication of Quarterly Chronicles at *bi@icmai.in*.

I convey my heartfelt thanks to our dynamic President, CMA Balwinder Singh, who had always given consent at lightening speed whenever we had approached on issues for the benefit of the members and students.

I thank profusely Shri Amitabh Chattoraj, Consultant and former banker for helping the Committee in bringing out the Chronicle.

I also keep it on record the support extended by the members of the Committee and Chairman, PD and CPD Committee for continuous support to the activities of our Committee. My Council colleagues has perpetually been the source of inspiration who had provided with various suggestions / inputs in making the Chronicle see the light of the day. I also covey my heartfelt thanks to our team of Secretariat of Banking and Insurance Committee and Directors of the Institute without whom the Chronicle could not see the light of the day.

We are happy to let you know that inspite of the challenges we do cherish with extreme joy, we aim in creating a landmark too for the posterities who'd be working in this arena.

We remain with the words of the iconic great Dr. APJ Abdul Kalam, Former President of India **"DREAM, DREAM, DREAM. DREAMS TRANSFORM INTO THOUGHTS AND THOUGHTS RESULT IN ACTION"**

Wish you all in good health and safe life.

WITH WARM REGARDS

CMA Chittaranjan Chattopadhyay

Message

CMA Vijender Sharma
Chairman - Professional Development Committee
The Institute of Cost Accountants of India

Banking, Financial Services and Insurance (BFSI) sector is a vital sector for the Indian economy which reflects macro-economic variables. Since the commencement of COVID-19 and the nationwide lockdown in March this sector is consistently functioning serving the customer's to meet their financial needs and to provide enough liquidity and credit support to the industrial sectors. The technological capabilities of this sector will play the most pivotal role in shaping the market trends.

I congratulate my council colleague CMA Chittaranjan Chattopadhyay, Chairman and other members of Banking & Insurance Committee for bringing out the Banking, Financial Services and Insurance Chronicle at this juncture of development of Indian Economy. I hope that BFSI Chronicle will be a first step towards the many more milestones to be achieved by the Banking & Insurance Committee.

I am sure that BFSI Chronicle will help the members in imparting their professional responsibilities successfully. I urge the members to give their suggestions on the BFSI Chronicle so that it can be further improved in the time to come.

Thank you very much.

CMA Vijender Sharma

IMPACT OF COVID-19 AND STRATEGIES FOR BANKING SECTOR

CMA (Dr.) Shilpa Parkhi
Practicing Cost Accountant

The world suddenly started recalling the horror of the 2008 financial crisis as the first COVID-19 case emerged on 17th November 2019 in China. Within the blink of an eye, the entire world felt tremors of an emerging pandemic as COVID-19 sent global economy to a standstill and India too couldn't save itself from it.

While India grappled with exponential growth in COVID-19 case and a nation-wide lockdown, the economy came to grinding halt and the backend engine of the economy i.e. banking industry resorted to a massive outcry. While in the initial weeks of lockdown banks were trying to figure a way to stay operational with new norms of social distancing and safety, soon enough the focus shifted to staying alive in the business. India's central banker RBI soon came blazing to keep afloat the financial system with a flurry of relief measures like never seen before. With uncertainty looming large over how the world will get rid of the virus and the timelines of opening up the world back to the normal, banks have been faced with a massive task to realign itself as COVID-19 and RBI measures frequently impacting operational parameters, putting pressure on borrowing, lending and profitability side of the banking sector.

The Government of India has already announced a large number of sops for the MSME sector. Under the emergency credit line, borrowers can avail a maximum of 10 per cent of the existing fund based working capital limits, subject to a cap of Rs 200 crore. Public sector banks have sanctioned loans worth Rs 42,000 crore to the MSME sector and corporates since the start of the lockdown. PSBs sanctioned loans worth Rs 5.66 lakh crore for over 41.81 lakh accounts in MSME, retail, agriculture and corporate sectors during March-April 2020. For non-banking financial companies (NBFC) and housing finance companies (HFC), PSBs have sanctioned Rs 77,383 crore in loans between March 1 and March 4 while additional funding of Rs 1.08 lakh crore have been sanctioned to NBFCs and HFCs ensuring business stability and continuity going forward.

The government will facilitate collateral-free loans of Rs 3 lakh crore to businesses including MSMEs. These loans will be for a four-year period and the borrowers won't have to pay the principal amount for 12 months. The government will be the guarantor for these loans to be disbursed by banks and NBFCs. This measure will help the companies get the cash needed to restart businesses after lockdown. The government would infuse Rs 50,000 crore in the MSME sector through equity investments in them via a Fund of Funds. This investment will be in companies with growth potential and sustainable business models. To support Make in India, government procurement tenders of up to Rs 200 crore will not be global tenders. That means foreign companies will not be allowed to bid for them. This will give a fillip to PM's call for self-reliant India.

The government will provide liquidity of Rs 30,000 crore to NBFC, HFCs, and MFIs by investing in investment-grade debt papers of companies. This will support the measures of RBI to provide liquidity. It will help these companies and also mutual fund companies as there will be a buyer for the papers these mutual funds hold. This is significant for investors in medium-to-long term debt mutual fund schemes. It will turn their investments in funds where lower grade papers have been bought would have a liquidity cushion and support the bond prices.

The government has also come in support of companies with a low credit rating. These companies require money so they can lend. So, the government has announced a Rs 45,000 crore Partial Credit Guarantee Scheme. In case there is a loss, the first 20 percent of the loss will be borne by the government of India. Companies with Credit Ratings of AA and below, even the unrated papers will be eligible for investment. This will increase the risk appetite amongst the lenders as they see their losses actually pared if the borrowing companies default. As companies that would have relatively struggled or seen delay in their loan approvals – would now get relatively faster approvals.

The major impact of COVID-19 and subsequent opportunities for the banking industry to survive this pandemic hit recession like circumstances has been outlined in this letter

Foremost responsibility has been to safeguard the health of people, families, colleagues, and the nation as a whole. Though banks are not being hit by the novel coronavirus as directly as other retail institutions, they are at the forefront of public attention. The stability of banks is crucial to keep the system up and running since they form the heart of the economy. Millions of consumers might lose their ability to pay for credit, particularly mortgages during their quarantine.

Governments will soon be forced to balance the health of their citizens with economic stability and their debt. Banking services in India are classified under the essential services list. Banking and financial institutions were under immense pressure to ensure business-as-usual amidst the lockdown and health crisis. Operations such as cash deposits, withdrawals, clearing of cheques, and other traditional teller services have to be executed by maintaining a safe distance of at least a meter.

Major Four Key areas of Concern are **Credit Management, Revenue Compression, Customer Service and Advice Provision and Operating Model Adjustments, Cost Control and Innovation**

There would be an increase in both commercial and retail non-performing loans, as borrowers struggle to make scheduled interest and principal payments. With Supportive Government actions, initiating credit forbearance and modification programs, and digitizing to manage the demand for refinancing, these risks can be mitigated.

Customer servicing preferences can be improved by Educating and training customers, minimizing physical infection risk, giving personalized advice, leveraging virtual SME relationship managers, and accelerating digital sales and service.

For, Operating Model Adjustments, Cost Control, and Innovation, as the demands of the next four to six months will be different from what was envisaged six weeks ago, banks should respond with as much flexibility as possible. They should carefully consider the tasks of the 'war room', Review project expenditures, be flexible with vendors and suppliers and invest in things that will outlive the virus

Impact on banking can be considered to 3 dimensions - **Borrowing Side, Lending Side, Core Banking Operations Side.**

Borrowing Side: RBI has infused liquidity in the system through Targeted Long Term Repo Operation (TLTRO) of close to Rs 1 lac Cr to ensure repo rates are transmitted by banks. RBI has been signalling banks to 'just go out and lend'. With reverse repo rate declining to 3.75% banks have no option but to lend. RBI decreases CRR from 4% to 3% leaving the banking industry with 1.37 lac Cr cash to lend more, expecting to alleviate the cash flow crush of industries impacted by the lockdown. As more and more funds are getting available to banks, they will be obliged to reduce FD rates as well as saving account interest rates to cut down the borrowing cost. Owing to the exceptionally high volatility in domestic financial markets, banks have been allowed to dip 3% into SLR for borrowings under the Marginal Standing Facility (MSF). This would help banks in overnight borrowing of funds as per RBI.

Lending side: RBI has permitted banks to give moratorium to customers for up to 3 months. Banks must communicate with customers if they are allowing the moratorium along with new EMIs/duration of loans. Banks must do post COVID-19 sectorial as well as individual cash flow modeling and credit analytics to keep roll rates low. Capacity to handle delinquencies and defaults to being setup Delinquencies arising out of pandemic must be dealt with empathy and data-driven approach. Bring operational flexibility, process flexibility, work allocation flexibility, and reallocation of employee's basis on demand. Share the credit risk exposure to SMEs by collaborating with original manufacturers and their supply chain partners. Look out for newer instruments to extend credit as well as ways to keep different assets as a mortgage. Product innovation and expansion to a different category is a must to diversify new credit extension risks.

Banking Operations Side: Pivoting from face-to-face customer servicing to digital servicing. Giving flexibility to relationship managers to connect with customers virtually with tools customer is convenient with. Analyzing which projects can be stopped/deferred to avoid short term mismatch in costs and revenue. Managing credit cost and credit extension risks with data-driven and analytics.

Immediate actions to be taken:

1. **Branch Operations:** Branches have to be set up to support "social distancing" guidelines, following a hub and spoke model to close some banks. Review appointment reasons to see how to transfer future visits to a virtual, call center, or digital channels. Adjust branch hours and staffing mix and times. Provide branch staff, premier bankers, and financial advisors access to the data they'll need to provide tailored guidance.

2. **ATM operations:** Promote cashless transactions (e.g., real-time transfers, remote deposit capture) more prominently on marketing screens at ATMs and on digital sites, especially on "Find a Bank" and "Find an ATM" screens. Let the customers know that service levels may change, and encourage them to consider digital alternatives. Evaluate how to use automation more effectively to service routine requests (Tier 1 calls), using back-office branch or wealth management operations functions for moderately complex functions (Tier 2 calls) and limiting traditional call center agents to focus on Tier 3 calls. Review contact center productivity metrics to include the changing nature of off-phone work. Take advantage of chatbot capabilities, which have steadily grown more sophisticated and easier to deploy. By building off-ramps into wait time messages, you may be able to shift work from call center agents and provide quicker response times.

3. **Back office operations:** Use (or increase the use of) your IT development teams to automate routine work. Intelligent automation tools would automate simple to moderate tasks within two to three weeks.

4. **Third-party support:** Reconsider which third-party support services you would now label "essential. (Janitorial services or other vendors).

5. **Controls and policies:** Create setting up cross-functional teams (product, operations, customer experience, channel operations, etc.) to assess how you can reinforce essential functions that are seeing new spikes in volume.

6. **Employee compensation and benefits:** Consider changing incentives to drive branch traffic to digital channels. Convert key commission-based employees to salaried pay plans temporarily. Create or adapt training for bankers to help them work virtually. Consider granting liberal leave or additional PTO days and/or time tracking to empower caring for ill people. Explore wellness initiatives to help employees manage stress.

7. **Show empathy to your customers while making sound business decisions:** Customer relief and remediation: Provide temporary relief with no credit bureau impact for a period of 30 to 90 days. This could apply to auto, mortgage, card, and small business loan payments through monthly service fees waivers. Use social listening and voice-of-customer tools to identify issues related to how your brand is perceived. Make sure customers are aware of the role that your bank is playing to support the community during this difficult period. Have a team to respond quickly and empathetically to social media issues.

8. **Proactive outreach and growing share of wallet:** **Tailor** efforts based on specific customer characteristics help. Focus on addressing evolving needs as-well-as servicing and containment. For example, you might want to identify customers who are likely to face temporary financial strain and reaching out with customized solutions such as payment skips, interest deferrals, new credit lines, and fee waivers have special servicing needs (such as the elderly who are accustomed to branch banking) and developing solutions to continue serving them could be more financially hurt by this crisis.

Monitor deposit fluctuations, particularly as clients try to remove risk from their portfolios and draw on credit lines to increase their cash positions. Evaluate client refinancing deals against your balance sheet strategy. Consider how government stimulus may create lending opportunities and change profitability measurements. Engage credit risk and accounting teams to determine how increases in expected losses will affect earnings. Look for opportunities to refinance existing debt or raise new funding at attractive rates. Revise any planned capital actions, given changes to buyback strategies, dividends, and new balance sheet forecasts.

Finding ways to trim costs quickly to the following functions:

1. **Corporate:** Review all inflight projects and recent proposal selections. Set up a control tower process to evaluate which costs can be trimmed or eliminated. Use a similar process to review all new costs to separate the “must-haves” from the “nice to have.” This might take 2 weeks to setup. Shut down climate control on floors that aren’t being used, and some buildings or campuses may be shut down completely while workers are remote within 1 month. Consider using intelligent automation tools, if you haven’t done so already. They are improving rapidly in sophistication and ease-of-use, and returns can often be achieved in a matter of months (1-3 months). Triage the product/investment portfolio. Delay or stop active development programs and projects that are low or slow impact (about 1 month.

2. **Procurement:** Streamline procurement with a rapid-sourcing process to support control towerdecisions. Decide whether a given expense is appropriate or not and use this process to reduce costs quickly through competitive bids or direct negotiations (This might take about 3-6 months to complete).

3. **Back office functions:** Run a once-week assessment to identify quick wins for process automation (for 1-3 months).

4. **IT:** establish a regular process to wind down unused software licenses. Monitor usage strictly to identify if new or renewed license purchases are appropriate for about 3-12 months.

5. **Marketing:** Where possible, bring media and media analytics to spend in-house and benchmark its use. Take a closer look at how you spend resources to build a brand and acquire customers. Pull back from lower priority or lower margin efforts, do so. This will take about 1 to 6 months to complete.

6. **Customer service:** To handle the surge in call volume from offset branch traffic, develop a digital process to address as many requests as possible without live intervention. Bots and process automation will also be key tools in serving call volume more cost-effectively and takes about 3 months to complete

The following are some post-COVID-19 Replot Strategies:

1. **Adapting to a new customer norm with new business models.** Banks will need to respond to lasting social changes, including how customers select channel preferences, products, and banks for their individual financial needs, which are likely to result from the current crisis.

2. **Rethink what drives brand loyalty.** The bifurcation of brands forged by marketing spend by universal banks and high-interest rates of digital banks could be completely reset due to a flight to safe institutions. Whether providing mortgages to growing families or loans to growing businesses, retail banks have a long history of promoting social and economic success.

3. **Restructure the addressable market to grow beyond the core.** Growth will be different and may rely more on adjacent markets, ecosystems, or other demographic factors to define the addressable market.

4. **Reconstruct the resiliency plan.** COVID-19 has expanded the scope of operational resiliency beyond preventing threats to being prepared to operate during periods of massive social disruption.

5. **Validate long-standing business assumptions.** Will governments and society demand a cashless future? Line of business leaders will need to re-examine where value and profit accrue and how they can differentiate.

6. **Reprioritize capital allocation plans and M&A.** Banks will not only look intra-industry for attractive combinations given valuation resets but also outside of financial services given industry convergence.

Some areas where Cost and Management Accountants (CMAs) can contribute would be in relooking at the balance sheet of banks and identifying the present and potential areas of concern in the light of reduced business operations. They can suggest plans/schemes to empathize with the current situation or come out with solutions to reduce the cost to serve. They can study the financials of borrowers and keep a check on the financial health of customers

To Conclude, CMA in Practice and Employment with Banking Sector can take the first step forward. Those who are associates with Banks in various capacities as Advisors, Consultants can partner with the banks for framing the strategies. Taking the first-mover advantage by partnering will be the best strategy.

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IBC: PAST AND ROAD AHEAD – MARKET BUZZ

CMA (Dr.) S K Gupta
MD & CEO
IPA of Institute of Cost Accountants of India

The perspective

Insolvency and Bankruptcy Code (IBC), 2016 is one of the deepest reforms adopted by India. It is a Landmark piece of Legislation. It seeks to resolve distress of the companies in a time bound manner while balancing the interest of all stakeholders. It has brought about a significant change in credit culture in the country over the last little over 3 years of its operation in India. About 220 cases have since been resolved resulting in Rs. 1.8 lakh crore being pulled out of distressed assets with average realization being 44% which is 208 % of the liquidation value. Recovery is incidental under the IBC. Its primary objective is rescuing companies in distress. To say that IBC has been a game changer would be an understatement. There is a myth that although the IBC process has rescued 200 companies, it has sent 800 companies for liquidation. The number of companies getting into liquidation is thus four times that of the companies being rescued. Numbers, however, to be seen in context. The companies rescued had assets valued at Rs 0.8 lakh crore, while the companies referred for liquidation had assets valued at Rs 0.2 lakh crore when they entered the IBC process. Thus, in value terms, assets that have been rescued are four times those sent for liquidation. It is important to note that of the companies rescued, one-third were either defunct or under BIFR, and of the companies sent for liquidation, three-fourths were either defunct or under BIFR.

Covid-19: Trying times

As uncertainty looms over corporate India in the wake of the Covid-19 outbreak, several companies under the bankruptcy resolution process may see potential buyers pulling out. Buyers have adopted a wait-and-watch approach even in cases where the deals were in the final stages or bids submitted, as the Covid-19 crisis has put a question mark on valuations and viability of businesses. The impact of coronavirus will be highly disruptive for the insolvency industry; even the plans which were either approved or under consideration by the committee of creditors and NCLT may go back to the drawing board. You could also see the bidders thinning for insolvency companies; they might seek a payment moratorium or timeline extension in places they have already submitted bids. The centre of gravity will shift from NCLT based resolution to informal restructuring under RBI sponsored scheme, which too would need an urgent tweak. With the streams of global distressed asset investors and resolution applicants likely drying, and with existing promoters disqualified to bid in view of Section 29A, the banks are likely to prefer resolution outside of NCLT. The pending cases will also see a spike in withdrawal as banks opt to settle cases due to enhanced uncertainties under IBC process. Besides, there has been a spurt in cases where companies have resorted to the force majeure clause to hold back payments – from dues to vendors to mall rentals. Although the Reserve Bank of India has allowed lenders to provide a three-month loan moratorium for a majority of borrowers, banks fear a spike in defaults and loan repayment problems in the coming months as the impact of the pandemic-induced distress is going to linger for a while.

IBC: Response to Covid -19

With an eye on further enhancement of Ease of Doing Business and at a time when a large number of companies have seen their revenues collapse during the last month or so, with forecasts suggesting that demand for goods will remain weak due to Covid-19. the government has announced the suspension of fresh initiation of insolvency proceedings up to one year and exclusion of COVID 19 related debt from the definition of “default” under IBC. It remains to be seen whether an exact definition of 'COVID – 19 related debt' will form part of the fine print. Another key concern is that if these defaults are to be excluded anyway, what was the need for a separate announcement to suspend all IBC proceedings for one year. RBI's directions to the banks on classification of covid-related bad debt would be critical. The minimum threshold to initiate insolvency proceedings has been pushed to Rs.1 crore from the current Rs1 lakh default. Section 240 (A) of the IBC covers the framework of how it is applied on MSMEs. The government has now proposed a special resolution framework for MSMEs to be notified soon.

There is no doubt that even some of the most resilient businesses were experiencing demand contraction in the pre – Covid era, and post Covid-19 will struggle with supply side and labour disruptions as well. The Covid-19 period will of course severely impact almost all industries besides being a washout with some sectors such as automobiles showing zero sales. In such circumstances, businesses which were less resilient and did not have enough balance sheet strength or the ability to maintain solvency during the Covid period would be severely challenged. The enhancement of the minimum threshold to initiate insolvency proceeding to Rs 1 crore while welcome, may not have been sufficient. Most businesses would also need to reassess their near to medium term business plans post Covid – this is an area where less resilient businesses will struggle as they attempt to re-ignite and re-generate demand. the lenders still have options to “recover” their dues through invocation of SARFAESI and taking borrowers to the Debt Recovery Tribunal (DRT).They also have the right to “resolve” with lenders under the provisions of Section 230 of the Indian Companies Act.

Market Buzz..

There is no doubting the fact that the demand particularly in discretionary sectors is unlikely to come back anytime soon, and the economics may look very different from the pre Covid times. Neither can one undermine the fact that the banking system, which is the main credit delivery system, needs to continue to regain health. Under the circumstances, there is a compelling case for allowing banks to restructure loans whether pursuant to the June 7, 2019 circular or a new Covid specific mechanism. As the purpose for admittance to the insolvency process is primarily timely debt resolution and not just liquidation, there is a strong merit to put in place for speedy resolution outside NCLT in this period of abeyance. The June 7 circular was a progressive one and if aided by making the inter – creditor agreements (ICA) mandatory, if say 75% sign the same or make a Master ICA which is signed by entire lending community, relaxations on a) the rating criterion with applicability only when the loan comes up for up gradation and b) applicability of Section 29A of the IBC to the restructuring cases, could make for a compelling alternative over the course of the next one year. It will also ensure that we do not lose the resolution momentum and IBC survives the Covid scare. The need of the hour is to come up with a resolution framework which focuses on aligning the capital structure of the stressed companies to the viability of the enterprises and not only focus on recovery of loans. Given the overall macro situation it is important to provide adequate support to the industry so that the genuine bonafide companies can come out of it in a quick and efficient manner. Clearly this will involve sacrifice from the financial creditors and therefore the GoI/ RBI should provide lenders corresponding relief by permitting them to undertake restructuring of Covid impacted companies without the same getting classified as NPA. The same would on one hand preserve the precious capital of lenders from NPA provisioning but also incentivize them to quickly put in place a proper restructuring package.

Exclusion of default due to COVID-19 and barring initiation of new insolvency cases for next 1 year will surely benefit corporate entities who genuinely want to pull themselves out of an economic slump or slowdown, But this will ultimately hamper the recovery prospects of financial institutions in cases of existing defaults by a corporate entity and in those cases as well where the accounts have already been declared as NPAs, While pausing fresh bankruptcy proceedings could be a breather for many companies, it could deprive lenders the opportunity to restructure certain companies which may be beyond redemption. Exclusion of COVID-19 related debt/defaults seems to be good news for the corporates, but it is unfair for the aggrieved party and can create unscrupulous borrowers which can defeat the purpose of IBC. In fact, it can increase more stressed debt levels at banks which are already under pressure especially PSUs. What happens to the cases which were doubtful or bad before COVID and where the borrower may take undue advantage. What kind of alternate remedy the lender will have is not clear. Such blanket ban may throw wrong signal on the performance of contractual obligations by parties and the legal protection available to the aggrieved party. the suspension of IBC proceedings for 1 year though essential in these times, would postpone the pain for banks and NBFCs and they could see large slippages and lower recoveries post the 1 year period. It would be critical to see if the Reserve Bank of India allows corresponding leeway for the lenders, so that they don't need to treat those defaults (or delayed payments) as non-performing assets or even write-offs in their books. Else, the lenders will bear the financial burden of this pause by having to account for it in their quarterly provisioning. Further it is to be seen whether the rating agencies pause the rating for those firms during this period or will they trigger downgrade? Ability to borrow further and the pricing of such a debt will depend on the rating.

The government has proposed to exclude 'covid-related debt' from the definition of what constitutes default. This essentially means that any lender who initiates insolvency proceedings cannot factor in the debt whose repayment had been delayed due to covid reasons. The point here is how one proves that the specific amount is due to covid-related delay. Lack of working capital at the right time can lead to exponential erosion and not just sequential amount being lost. Unless there are specific norms around how the 'covid-related debt' is defined, having a subjective range could lead to potential misuse or even harsher moral-hazarding.

While the MSME amendments have given some breathing space to the sector, the blanket suspension of defaults on account of COVID could lead to unintended consequences. Questions like why should an entity not refer itself to insolvency, what is the parallel regime of resolution, recovery steps are not curtailed and therefore will continue to rise, what is the framework for creditors to come up with a viable resolution plan outside of IBC, continue to remain unanswered. It must be recalled that the IBC was brought in as an alternative to enforcement and as a measure for viable companies to regain its lost glory and survive as a "going concern" with fresh life. Time and again, the preamble and intent has been upheld that the IBC is a means of resolution and not recovery. Leaving out the option of resolution, automatically opens the door for recovery and this could be a huge unintended consequence of the blanket suspension. A binding framework of resolution outside of IBC has found very little success in the Indian market. Suspending IBC in entirety for one year while it looks like a relief to corporates, could actually lead to the corporates being in a state of flux, and creditors in anxious disarray.

BANKERS: GREATER COST CONSCIOUSNESS - A NECESSITY FOR SURVIVAL

Biplob Chakraborty
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The banking sector plays a critical role in economic developments. Its allocative efficiency and financial resilience and stability are perhaps the most important drivers of the pace of future GDP growth. Banks offer a wide variety of products and services through a number of distribution channels. The banking products and services can be divided according to business segments and business activities. There are many different activities, customers, products or responsibility centres in banks. Thus, most of their incurred costs are in the nature of indirect costs /overheads and therefore it is not easily traceable to cost objects as many share them. For instance, when a bank is granting a loan to a customer, the customer needs necessarily open a current account for his transactional convenience or as part of compliance to loan covenants. The customer would order cheque books on his current account and may subscribe to products like remittance, forex forward, derivatives etc., there would be bouquet of interrelated products/services sharing different activities, products, responsibility centres, associated employees/computers, etc, rendering it difficult to disentangle and understand exactly how to allocate these costs. Ability to set prices efficiently for products and services is supported by an effective costing system. Appropriate and precise cost allocation thus would be crucial, as it would have important bearings on pricing of products and services besides pricing of risks and framing of lending policy and in turn on profitability. Cost allocation process need be scientifically structured and professionally governed by well-articulated overhead allocation policy and subjected to Board level oversight. Ideally the cost related data and information are to be gleaned on an real time basis mainly form transactional data in appropriately designed data base structure having interface with the core banking solution enabling straight through data transfer process required for the purpose.

The banking space is becoming increasingly competitive and fast evolving with the advent of fintech and emergence more nimble actors substituting bankers in erstwhile business space of banking dominance. The banks are facing the challenges of meeting the needs and aspirations of new breed of digitally driven customers. Ability to innovate and customise process and products leveraging technology and use of diverse delivery channels to reach the customer in response to their individual needs and preferences would enhance the comparative advantage needed for sustainability and survival in the emerging increasingly competitive banking space. Presently as also in the days to come the banks would have to grapple, among others, with main three Cs viz., Cost, Capital & Customers. In the scenario of increasing complexity and diversity of activities, understanding the implications of rapid changes and measuring their impacts on organizational costs are unavoidably important. Consequently, greater visibility of cost and non-value adding activities, improved product and customer profitability analysis and economisation and Cost control are important and inescapable items in the focus of the banks' strategy. Pricing of product or service is one of the most important business decisions that the management makes. A business cannot ignore, among others, the cost while setting product/service prices. Product/service pricing strategy and policy, on which crucially hinges banks' profitability, unless supported by an effective costing system, would be suboptimal and may be unsustainable too. The banks therefore cannot avoid putting in place a professionally managed effective costing system to support decisions making process providing precise real time information on impacts of various aspects and dimensions of fast changing activities, on organizational costs.

In this backdrop the banks should exhibit enough nimbleness to move to all embedding and all-pervading cost-conscious paradigm in decision and strategy making. Banks should devote priority attention to sharpen and upgrade their costing competencies and skill sets leveraging expertise of costing professionals and strengthen the costing system in place. Lest the ensuing technology mounted disruptive onslaughts would be posing threat to survival.

THE ROLE OF LIFE INSURANCE IN MINIMIZING FINANCIAL RISKS

Chitra Nair
Life Insurance Consultant

The ancient adage "Life is not a Bed of Roses" assumes a lot of relevance in the context of risks that we face during the course of our lives. In life, we may face several risks, many of which have huge financial implications. When we had joint families in India, the finances were also jointly held; no individual family had to face the brunt of financial losses all by themselves. Today, individual families need to face financial risks by themselves. Hence, it has become increasingly important to meticulously plan our finances and to have a well-chalked-out plan for financial risks that may arise along the way.

Early Death

Death is an unwelcome visitor that comes unannounced. One cannot predict how or when a person is likely to die. There are many Indian families where the husband goes for work while the wife chooses to stay at home to take care of the family. In case the only earning member of the family meets with an untimely end, the impact on the family will be horrendous. Apart from the emotional trauma that they will encounter,there will be a tremendous impact on the family's finances as well. The family will find it difficult to maintain their existing lifestyle. The bereaved spouse may be forced to work in order to support the family. This may be particularly tough if she has small children who need to be looked after.

In case of working couples, the sudden demise of one of them can put tremendous strain on the surviving partner. If there are home loans or educational loans that they have jointly taken, the burden of paying the EMIs will now need to be borne by a single individual. This can be a huge drain on the monthly budget of the family.

The death of a non-working spouse can also have an impact on the family's finances. There are many chores that a home maker does that will now need to be taken care of by the surviving spouse- cooking, cleaning, managing the family budget, grocery shopping, attending PTA meetings, teaching the kids, taking care of their projects/assignments and so on. The family may need to seek paid help for many of these tasks.

Life Insurance is an excellent tool to protect your family from the hazard of early death. A term plan can offer you protection for a fixed period of time. A whole life plan can offer protection for an entire life time. Pure term plans are very economical and can secure your family for a large Sum Assured for lower premiums. It is ideal to buy term plans at a younger age since the premiums are directly proportional to your age.

Critical Illnesses

Critical illnesses can wreak havoc with a person's life. India being a country with minimal social security, a person who is affected by a chronic illness needs to fend for himself. The medical expenses can be a huge burden on his family. The family's savings over the years may get used up to take care of the medical expenses. Add to this the loss of income that happens when the affected person is unable to go for work and consequently loses his employment.

Many life insurance policies come with additional benefits called riders that offer special benefits to policy holders. You can choose to buy the rider benefits by paying an additional amount called the rider premium that gets added to the base premium.

Critical Illness rider offers protection in case of contracting certain specified illnesses. The critical illness benefit is generally in the form of a lump sum payment to the insured, upon diagnosis of the illness. The Critical Illness Sum Assured is capped at 50% of the total SA and the rider premium at 30% of the total premium. The Critical Illness pay-out can be a major relief for the family that may be struggling to meet the medical expenses associated with the treatment. It can also mitigate the financial strain on the family due to loss of employment. If you are looking for a larger Sum Assured, you can opt for a standalone critical illness plan.

Disability due to accidents/illnesses

India is notorious for the number of accidents on its roads. Accidents often lead to disabilities which may be partial or total. Certain illnesses can also lead to disability over a period of time. This can be very challenging for the families of the affected person. Disablement almost always results in a loss of employment and a consequent loss of income. The disabled person often needs specialized care that can be an expensive proposition for his family.

Many life insurance policies come with riders such as the permanent total disability rider. This rider entitles the insured to the payment of a lumpsum amount in case he suffers a permanent disability due to an accident/illness. Generally, the pay-out for total disability is an amount equivalent to the Sum Assured. In case of partial disability, a certain percentage of the Sum Assured will be paid out to the insured. The percentage is decided based on the extent of disability that the insured has suffered. This payment can bring much-needed succour to the family of the insured person.

Some policies offer a rider called Waiver of Premium that waives off all future premiums in case of critical illness or permanent total disability to the insured. The benefits of the policy will continue without having to pay any future premium.

Living too Long

With medical facilities in India growing in leaps and bounds, the longevity of our population has increased. Longevity brings with it many problems that older people have to face. The most prominent among them are poor health and exorbitant medical costs. There is an increased danger of their lives' savings being wiped out by major health issues that may arise. Most older couples would not like to burden their children with the cost of their medical expenses.

You can buy a life insurance product to accumulate a substantial retirement corpus for yourself. A unit-linked plan gives you the option of investing in funds with varying risk exposure. These products can help you beat the impact of inflation on your savings. The maturity benefit from the product can work as a retirement corpus for you. In case you are risk averse, you can opt for an endowment product that can help you build up a corpus over your working life. In an endowment product, bonus that the insurer declares gets added to your policy periodically. There are endowment products that come with guaranteed additions as well.

Alternatively, you can invest in a retirement product offered by a life insurance company. Retirement plans can be divided into two phases:

Accumulation Phase: This refers to the duration of time for which you pay your premiums. These premiums are invested by the insurer to generate returns, thereby building up a retirement fund for you.

Annuity Phase: This happens at the end of the policy term. You can choose a vesting age between 50and 70, in most of the retirement plans. At the time of vesting, you can choose to withdraw up to 33% of the pension fund. The remaining amount will be paid to you as annuity. The frequency of payment may be monthly, quarterly, half-yearly or annually.

In case you have chosen an immediate annuity, you will need to pay a lump sum as premium and can start enjoying your annuity immediately.

Retirement products are a boon to private sector employees who are not entitled to any pension from their employers.

Financial Exigencies

Life can throw many challenges in its path-loss of job, loss of investments, unplanned travel, unplanned hospitalization and so on. Unit Linked plans offered by life insurance companies give you the flexibility of partial withdrawals after completion of 5 policy years. These policies can help you tide over financial emergencies that may arise. However, there are limits on the amount that you can partially withdraw.

Inflation Risks

Inflation can erode the value of your savings, making it increasingly difficult for you to afford the extravagant wedding that you had planned for your daughter or the higher education of your children. It is critical to invest in products that have the capability to beat inflation, especially when the bank interest rates seem to be sliding.

Unit Linked products can be an ideal choice for you to beat inflation. These products are a combination of insurance and investment. You can choose to park your money in any of the investment funds that the insurer offers. These funds come with varying equity exposure; you can choose a fund according to your risk propensity. Younger people generally have a more aggressive approach to investments and choose funds with higher exposure to equity. As you grow older, you have the option to switch to funds with lower equity exposure. These products are ideal for long term financial planning and generate good returns over a longer time horizon. You can use these growth-oriented products to plan for the major milestones in your life like the higher education of your children or your own retirement.

Risk of Non-payment of Loans

With the easy availability of home loans, car loans and education loans, it is common for families to have one or more outstanding loans at any point of time. In case of the unfortunate demise of the breadwinner of the family, the burden of repaying the loan has to be borne by the surviving members. This could lead to payment defaults and even confiscation of the house/car. This can be extremely painful for the bereaved family.

A mortgage life insurance is an ideal product that can cover your outstanding loan in case of any eventuality. It is a specialized product that covers you for the amount of loan that you have taken. As the outstanding loan amount keeps reducing the life coverage would also reduce. Your coverage at any point of time would be equal to the outstanding amount of your loan. This is a brilliant way to protect your family from financial liabilities that may arise due to the inability to pay off loans.

How much insurance is adequate?

The financial needs of individual families may vary, depending upon their lifestyle choices. While deciding upon the amount of coverage for the income-earning member of a family, any liability by way of home loan, car loan, education loan, personal loan and so on needs to be factored in. In case of an eventuality, the family needs to have sufficient funds to pay off all existing liabilities.

Other factors to be considered while deciding on the Sum Assured are the monthly income and age of the person who is getting insured. Another relevant factor is the number of dependants that he has. Needless to say, a person with many dependants will need a much higher coverage in order to minimize the economic loss for his dependants in case of an eventuality.

The inflation rate in the country should also be considered while arriving at the Sum Assured. High Inflation can substantially reduce the purchasing power of money. Under inflationary conditions, a family would need a much higher outlay to maintain their current standard of living.

Most insurers make use of the concept of Human Life Value in order to arrive at the amount of Sum Assured that an individual needs. Human Life Value is defined as the capitalized value of the net earnings of a person for the rest of his working life. In other words, it is the economic loss that the family would suffer in case of the sudden demise of the earning member. Under this approach, an estimate is made of the future earnings of the person and this is capitalized with an appropriate discounting factor. The discounting factor would depend upon the inflation rate of the country and the bank interest rate.

HLV Calculation

Suppose a person has a monthly income of Rs.50,000/- and personal expenses of Rs.15000/- per month. His contribution to his family is Rs.35,000 per month or Rs.4,20,000 per annum. In case of any unforeseen eventuality like death or disability, the family needs to have an income of Rs.4,20,000/- per annum. In order to provide this amount to his family, he would need to have an investment of Rs.60,00,000 if we assume a rate of return of 7% per annum. Hence, he needs to have a coverage (Sum Assured) of Rs.60,00,000, which would be available to his family in case of any eventuality. A pure term plan is a very economical option that he can choose in order to protect his family for a high Sum Assured.

Underwriter's Thumb Rule Method

Another approach for deciding on the amount of coverage is the "Underwriter's Thumb Rule" method. In this approach, the focus is on the age of the person who is getting insured. Sum Assured is taken as a multiple of the annual income, this multiple being higher for younger people and lower for older ones. For example, if the annual income of a 27-year-old is Rs.5,00,000/-, he would need a coverage of 15 times his annual income i.e. Rs.75,00,000/-. If his age falls between 45 and 55 years, he would need a life cover of 10 times his annual income. A person aged above 55 will need a coverage of 6 times his annual income. The calculation is based on the number of productive years that the insured has ahead of him.

Whichever approach you choose, it is important to choose a Sum Assured that can take care of your family's future needs in case of the occurrence of any unexpected event.

Conclusion

Life is full of uncertainties. While it is not possible to avoid all the risks that may come up in life, the impact of the risk can be minimized by being adequately prepared. Life insurance products can help in reducing the financial impact of such risks. Many families are reduced to penury if the breadwinner of the family were to meet with an untimely death. Critical illnesses and disabilities can also have a similar impact on families. A pure protection plan can help protect the family from the financial impact of early death. Critical illness and permanent total disability riders can offer protection in case such an event was to happen. Pure term plans are extremely affordable and rider premiums are minimal. Living too long can be painful if one has not invested wisely. A retirement plan can help you to accumulate a retirement corpus during your working life and enjoy your pension after the vesting age. Retirement planning assumes great significance, considering the higher medical expenses during old age.

If the family has outstanding loans, it is important to secure them by investing in a mortgage life insurance plan. With inflation on the rise, it is time to consider investing in unit linked products that can generate better returns in the long run. Such products offer the flexibility of partial withdrawals, subject to certain conditions.

That brings us to the question of how much coverage is adequate. The Sum Assured should ideally be equal to your economic value (Human Life Value).

CAPITAL MARKET AND ITS ASSOCIATED RISKS

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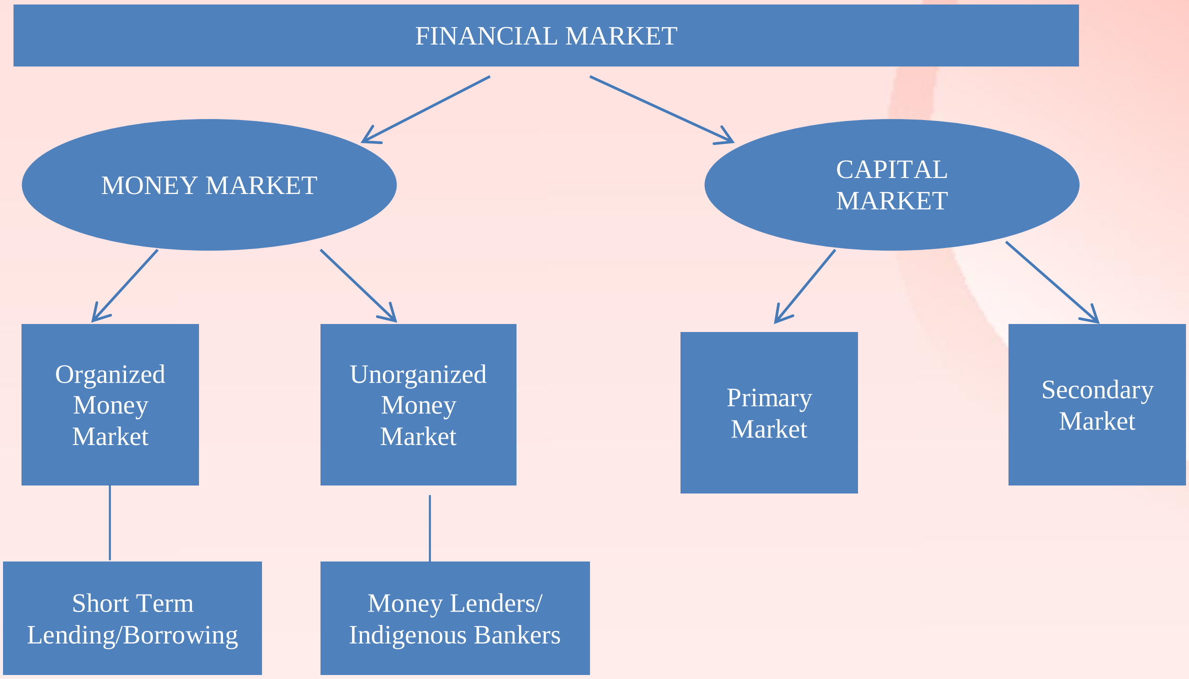
Capital is one of the important essentials for any economy. A well-organized financial system gives rise to an adequate capital through savings, finance and investments. An individual's savings depends upon the earnings which in turn would result in investments. The profits earned by the individual would depend on the profits of the organization. So many parameters are involved in such systems which are dependent and inter-dependent to create an economic growth in the country.

In the past, India was a very controlled economy, and it has moved to a situation where the prices fluctuate every minute. Risk management instruments were the new flavor and RBI's efforts to create the currency forward market along with derivatives became an integral part to mitigate risks. Not to forget participatory notes, countries like Korea and China were the prominent players. The financial system includes financial institutions like Banks, NBFCs, various products, Regulators etc. The Financial markets can be broken up into two broad aspects, viz., Money Market and Capital Market.

Financial Instruments having maturity of less than one year are categorized as Money Market instruments. Some examples of Money Market instruments are Treasury Bills, Commercial Paper, Certificate of Deposit and Call Money. Capital Market generally would include all other financial instruments whose maturity is more than a year. Securities markets help in transfer of resources from those with idle resources to those who have a productive need for them. We can with a help of an illustration best explain the same.



The Organized Money Market comes under the purview of the Regulators viz., Reserve Bank of India, SEBI etc., whereas the Unorganized Money Markets do not fall under the scanner of the Regulators. The Organized sector plays a very important role in the capital formation by means of mobilizing savings and facilitating the allocation of funds in an effective manner.

Organized financial intermediaries are Banking Institutions, NBFCs, Insurance Companies and Housing Finance Companies. They have an important role to mobilise savings and allocate the funds in an effective and profitable manner. Financial instruments would include Fixed Deposits, shares, bonds, debentures, mutual fund products, futures, options, derivatives etc.

The Securities Market has two interdependent parts, viz., **The Primary Market and Secondary Market.**

The Primary Market is used by issuers to sell their shares to raise capital from the investors for the first time. The Secondary market is where the shares that are sold in the Primary market are listed. This provides liquidity to these financial instruments through trading and settlement on the stock exchanges. An active secondary market gives impetus to the primary market and also capital formation due to the high liquidity. In the primary market there is a contact between the issuer and the investor whereas the buyer and seller do not have any contact between them in the secondary market. The capital that is raised in the primary market is through Initial Public offer (IPO), Follow on Public Offer (FPO) or through Private Placements. In the IPO the subscription is open to the general public, whereas the Private placements are offered to a select group of people. The Secondary market operates through two mediums, viz., the **Stock market option** and the **Over the Counter option**. In the Stock Market option trading and settlement is done through the stock markets. Here the buyers and sellers don't know each other. The settlement is done as per the rules laid down by the regulator and the exchanges. The Clearing Corporation acts as a guarantee for such settlements. The Over the Counter market is more of an informal market where the trades are negotiated. In this market the trades are settled bilaterally over the counter. Merchant Bankers, Mutual funds, FIIs, Individual Investors, brokers, bankers to an issue, depository participants are the several players in the primary markets. The R&T agents act as intermediaries to the capital market and provide services to both the primary and secondary markets.

Investors in the Indian market have a big choice of the products to choose from depending on the risk profile. The products are differentiated broadly into Equity and Debt. The Equity products that are on offer are Equity

Shares, Mutual Funds, Exchange Traded Funds, Derivatives, Index/Stock Futures, Index/Stock Options, Currency Derivatives, Commodity Derivatives and Interest Rate Futures. The Debt products consist of Corporate Bonds/ Government Bonds, Debentures, Warrants, Treasury Bills, Commercial Papers and Certificate of Deposits. The government raises capital through short term and long term securities. The major investors are the banks, insurance companies, provident funds, FIIs.

The Capital Market provides a platform where the investors place their surplus funds in financial securities and in turn get benefits like interest, dividends, bonus, capital appreciation etc. The important participants of the capital market are the **issuers, investors, intermediaries and regulators**.

Investors

They are the backbone of any securities market and in effect the economy. They contribute their surplus finances for expansion of companies etc. and in return reap the financial gains. Investors are of two types, viz., Retail and Institutional Investors.

Issuers

The Public Sector Undertakings and Private Companies do tap the Capital Market to raise the capital for expansion and growth. Banks and other financial Institutions are not far behind. Funds are also raised in the primary market from domestic and international markets. The cost of raising capital through the markets is relatively low.

Intermediaries

They play a vital role and try to bring more investors to this market by creating a platform where the buyers and sellers can trade with ease and convenience.

Stock Exchanges

The stock exchanges provide a trading platform where the buyers and sellers meet to transact in securities. Unlike in the bygone days trading used to be done in the Ring of the exchanges, today trading happens online through Brokers.

Clearing Corporation

A clearing corporation is a part of an exchange. It can also be a separate entity. The major function is to clear and settle all the transactions that take place on the exchange. This means that it ensures that buyer gets the shares and seller gets the money in the stipulated time. The clearing corporation is backed by clearing members, clearing banks, custodians and depositories.

Clearing Members

Clearing members are those that facilitate the clearing of trades on the exchange. SEBI registered banks and custodians and registered by the exchange are eligible as Professional Clearing Members. Custodians are also clearing members, but are not trading members. The custodian is required to confirm whether the trade done will be settled or not.

Depository and Depository Participants

In India, we have two Depositories, viz., the **Central Depository Services Ltd. (CDSL)** and **National Securities Depositories Ltd. (NSDL)**. All trades done on the BSE are stored in the CDSL, whereas all trades done on NSE are stored in NSDL. Investors cannot access the stock exchanges directly and so have to open Demat accounts with registered brokers. Such brokers are called as **Depository Participants**.

What is Investment Risk?

It can be defined as the likelihood of occurrence of any loss which is relative to the expected return on a particular investment. It can also be stated as the level of uncertainty of getting the returns as per the expectations of the investor. Risk becomes the important assessment of the prospects of an investment. Though the thumb rule is **"Higher the risk, higher the return"**, most investors look at investment with less risk.

A very important aspect of investing is the understanding of the various types of risk and the best methods to mitigate the same. This mitigation is done to avoid the total loss of capital invested. Each and every investor who accepts risk should have a risk management plan. Well it is inevitable that an investor who wishes to achieve his goals will not take risk as he has to achieve the returns that are over and above the risk free returns. So then, let's look at what is Investment risk…

When the word Risk is uttered, there is a sense of negativity. Well let me tell you, it's not always that.. So then what is it? It is the probability of getting something or not getting something that the investor desires. It can be either positive or negative. Understanding the different types of risk will allow an investor to manage the risks and optimize the returns. Now let us see the different **types of risks**.

Market Risk

It is known mostly as a systematic risk. It is risk that is affiliated with market risks such as interest rates, inflation, politics, recessions etc. Stock market prices cannot be predicted in the short term, but long term can be done with some precision. Long term returns are inversely related to the valuations. This means invest more in assets when they are selling at less than bargain prices than when the valuations are high. To mitigate the risk an investor should have a long term horizon along with an active asset allocation.

Specific Risk

Risk that is not correlated to the market returns is Specific Risk. It is related to a specific company or industry. Problems that are specific to a company like bad management, product failure or a catastrophe cause the individual prices to fall. This can be mitigated by having a diversified portfolio.

Volatility Risk

One of the most misunderstood risks is the Volatility Risk. Different portfolios can have different returns. The more volatile the portfolio the lower is the return you get. For example you have a portfolio which says that there is a negative return of 50% coupled with a positive return of 50%. The understanding of this is that the returns of the portfolio are 0%, but in fact you have actually lost 25% of the portfolio. Very few investors realize this due to the volatility of the portfolio.

Interest Rate Risk

The price of a bond is inversely proportional to the interest rate. Interest rates effect the borrowing costs and thereby the economic activity.

Default Risk

There are times when the securities cannot be bought back by the issuer nor cannot be sold in the market.

Liquidity Risk

Liquidity means able to realize the value of the asset in cash. It also means that you are in a position to sell the asset whenever the need for money arises. Generally instruments like shares, units of mutual funds are liquid, whereas instruments like real estate, paintings etc., are not liquid.

Inflation Risk

Instruments, whose prices are high, lower the purchasing power. If the instrument cannot beat the inflation and give higher returns again, lower the purchasing power.

Economic Risk

Recessions and Depressions have a counter effect on the value of the Assets.

Reinvestment Risk

Let me take a simple example of Fixed Deposit. A couple of years before you invested in a FD where the rate of interest was 9%. You have chosen the reinvestment option. Few years later, when you have to renew the same the interest is down to 6%. What happens in the ensuing years is that you would be getting lesser interest.

Political Risk

An investor has to look at the political and business stability and the government policies. These would have a large effect on social stability and economic avenues for investment.

Knowing the different types of risks that can be anticipated, we also need to understand how to mitigate or minimize the risks. One of the methods is **Portfolio Management**.

Portfolio Management is a fundamental method in investing. It is found that many investors make a mistake while doing so and land up with average performances or have too much concentration and end up with huge mistakes. In fact it is a mix of different securities with minimal risk and an optimal return.Portfolio Diversification will generally reduce the volatility as it is not necessary for all securities to move in similar fashion.

Benjamin Graham had said, **"There is a close logical connection between the concept of a safety margin and the principle of diversification."**

Portfolio optimization can be achieved through proper diversification. It is a problem today as investors either over diversify or under diversify. A common belief is that-- more the diversification then it is better. Unfortunately this belief is not correct. Most experts believe that 11 to 22 individual investments/instruments are sufficient to reduce the risk. Very few investors have the capability to manage big numbers.

Portfolio diversification is a balance between over and under diversification. An investor with better understanding would be able to build an optimal risk management plan. Volatility of stocks cannot be controlled. Each investor is looking for high returns. The best of investors concentrate on risk and not returns. You need to remember that returns will come, if the risk is managed properly.It is important to keep in mind

Warren Buffet's two important rules:

Rule # 1: Never lose Money
Rule # 2: Never forget Rule # 1

The best way to make money in the long term is not to lose money in the short term.

Following are some of the **Risk management Strategies**

Have a maximum loss plan

You need to ascertain as to how much loss that can be dealt with.Invest more conservatively. It will allow you to invest and take risks that are prudent and fit in the long term plan. A flexible asset allocation should be used for portfolio risk management.

Adopt a Tactical Asset Allocation

How an investor divides his investment into different asset classes is important. Having a Tactical Asset allocation provides the investor to have a dynamic strategy in different market situations. The investor would have greater flexibility.

Margin of Safety

It is the difference between how much you have invested and the market value of the investment. It is nothing but what price you invest and what value you get for the instrument you are dealing in. Lesser the margin of safety less is the risk.

Do not have a volatile portfolio

A volatile portfolio has a large negative effect on returns. More volatile portfolios under- perform, the less volatile portfolios.

Rejig your Horizon

Trying to out-perform the market in too short a time is what mistakes are committed by many. How your portfolio performs in the long period is what matters. You will face both bull and bear cycles in the long run. An investor should have a portfolio that is less volatile when the prices are expensive.

Finally, the stock market cannot be controlled and volatility will always be a part of it. We can only control through Portfolio Risk Management.

CREDIT RISK IN BANKING

Shashwati Choudhury
Former AVP, HSBC Corporate Trainer
for BFSI and Soft Skills

"NPAs of public sector banks stand at ₹7.27 lakh crore as on H1FY20: Govt"
(Livemint Sep 2019)

"Indian banks sitting on NPA cluster bomb ready to explode after March 31"
(Deccan Herald 19Jan, 2020)

"Yes Bank reports Rs 18,564.2 crore loss in Q3; NPAs saw a sharp rise"
(Business Standard 15Mar 2020).

These are just a few of the headlines which confront us every time we open the newspaper or listen to discussions on TV channels. NPA (non performing assets) are a big cause of worry for Banks as they struggle to survive amongst fierce competition, a slowing economy and stringent capital reserve norms. But what are these NPAs? These are Assets or Loans which have stopped earning for the banks because the borrowers have failed to pay back the interest or principal or both. This is the credit risk which all Banks face when they lend funds to retail customers (individuals and small and medium enterprises) or big corporate customers.

What is credit risk?

Credit risk is defined as the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. (www.investopedia.com)

Credit Risk may take other forms also:

In the case of Guarantees or Letters of credit: Funds not forthcoming from the constituents upon crystallization of the liability;

In the case of Treasury Operations: Payment or series of payments due from the counter parties under the respective contracts not forthcoming or ceases;

In the case of Securities Trading businesses: Funds/ Securities settlement not getting effected due to insufficient funds or securities;

In the case of Cross-border exposure: Non availability and issues in free transfer of foreign currency funds or restrictions imposed by the sovereign.

(Guidance note on credit risk management_RBI_oct 2002)

What are the types of credit risk?

Credit risk can be of the following types:

Credit default risk – The risk of loss arising from a debtor who is unlikely to pay the loan obligations in full or part Or a debt which is more than 90 days due on any material/ credit obligation; - The default risk may impact all credit-sensitive transactions, including loans, securities and derivatives.

Concentration risk – The risk associated with any single exposure or group of exposures with the potential to produce large enough losses to threaten a bank's core operations. It may arise in the form of single-Co concentration or due to a specific industry concentration.

Country risk – The risk of loss arising from a sovereign state freezing foreign currency payments (transfer/conversion risk) or when it defaults on its obligations (sovereign risk); - This type of risk is prominently associated with the country's macroeconomic performance and its political stability.

(https://en.wikipedia.org/wiki/Credit_risk)

What causes credit risk?

The uncertainty and probability of loss could be attributed to various macro-economic factors like changes in licensing policy, monetary and taxation policy, slowdown in the economy, high unemployment rate etc. Banks generally do not have direct control over these factors. However, certain company specific factors like aggressive lending policy, absence of proper credit management policy, inefficient management, fraudulent practices etc may also lead to high credit risk in Banks. The high NPAs in the Indian Banking sector could be attributed to

1. Slowdown in the economy, following the global financial crisis of 2007-08 which originated in the United States with the busting of the subprime home mortgage sector. The repercussions were felt all across global financial markets with banks going bust.

2. Government policies, high raw material prices, delayed environmental clearances led to the Infrastructure sector slowing down considerably- defaults in the power and iron and steel industry, change in tariffs thereby rendering a particular industry non-competitive

3. Demonetization- The sudden turn of events on 8 Nov 2016 left many small businesses struggling and ultimately closing down leading to defaults in loan payments.

4. Possible collusion between bankers and promoters of companies to perpetrate frauds leading to huge defaults (PNB-Nirav Modi/ Mehul Choksi)

5. Inadequate collateral and monitoring of Loans (The Kingfisher Airlines saga has been grabbing headlines for quite a while now where money was presumably laundered illegally).

6. Lending without following the laid down rules –(PMC Banks’ exposure to the HDIL group was 73% of the bank’s advances-concentration risk)
7. Likely evergreening’ of loans, where fresh loans were given to some promoters to enable them to pay off their interest (Yes Bank-HDIL)

8. Aggressive lending policy by the bank resulting in excessive growth of loan book which outstrips banks capacity to monitor the portfolio. Many private banks have huge defaults on their Credit card and Personal loan portfolio

9. Vagaries of nature-This is particularly applicable to agricultural loans to farmers.

What are the consequences of high credit risk in banks?

When Banks are burdened with huge NPAs, their survival becomes a challenge as cash flows are disrupted. The Banks main profit is from the spread between the interest rate they charge to borrowers and the interest rate they pay to depositors. When the flow of interest and principal from the borrowers is disrupted, the banks incur huge losses. Their capacity to lend is severely affected as they need to make huge provisions for probable losses. This has a cascading negative effect on the GDP of an economy as companies abstain from making fresh investments in the absence of funds from banks. The circulation of money in the economy is disrupted. As the bank struggles to survive their reputation takes a beating and the share prices plummet down.

The Basel Committee on Banking Supervision has noted that "exposure to credit risk continues to be the leading source of problems in banks world-wide" Credit risk is one of the main reasons for banks going bust. This was observed during the 2008 financial crises when leading financial institutions like Lehman Brothers went bankrupt and Merrill Lynch, AIG, Freddie Mac, Fannie Mae, HBOS, Royal Bank of Scotland, Bradford & Bingley, Fortis all came within a whisker of doing so and had to be rescued.

All this makes it a compelling reason for banks to manage their credit risk. With Banks as the backbone of an economy it is imperative for the banks and regulators to put a robust credit risk policy in place. Credit risk management encompasses identification measurement, monitoring and control of the credit risk exposures.

How do Banks manage credit risk?

1. **Define a credit risk policy and strategy -** Each Bank is required to frame and define a robust policy and strategy approved by the Board of Directors. This document should include risk identification, risk measurement, risk grading/ aggregation techniques, reporting and risk control/ mitigation techniques, documentation, legal issues and management of problem loans. Credit risk policies should also define target markets, risk acceptance criteria, credit approval authority, credit origination/ maintenance procedures and guidelines for portfolio management. It is important that the guidelines are percolated to the branches. The strategy should spell out clearly the organisation's credit appetite and the acceptable level of risk-reward trade-off for its activities. Senior management of the bank should be responsible for implementing the credit risk policy of the board.

2. **Adhere and review the 5C's of credit –** This is a system used by lenders to gauge the creditworthiness of potential borrowers.

   a. **Character -** reflected by the applicant's credit history. Indian Banks refer to the Credit Information Bureau (CIBIL) credit report of the borrower to know the past credit-payment history. The report is prepared using information received from various credit providers who are also members of CIBIL. The bureau also incorporates the information available in the public domain in this report. A score of 700 and above is generally considered to be a good score.

   b. **Capacity -** measures the borrower's ability to repay a loan by comparing income against recurring debts and assessing the borrower's debt-to-income (DTI) ratio. Banks generally define a maximum DTI beyond which they will not lend. It is extremely important for the bank to review the balance sheet, income statement and the cash flow statement. Apart from the DTI ratio, Banks may also need to review the quick ratio, asset turnover ratio, return on equity ratio etc to understand the repayment capacity of the borrower. For salaried individuals, bankers also check the job details- e.g the length of time the applicant has been in the current job, salary, prospects of the job etc.

c. **Capital -** indicates the borrower's level of commitment / seriousness. This is the margin amount or the borrower's commitment for purchasing an asset or for executing business.

d. **Collateral -** This is the asset which is mortgaged for securing the loan. The bank can liquidate the asset in case of default.

e. **Conditions -** These are the terms and conditions of the loan, for e.g the interest rate, principal amount, purpose of the loan etc. Additionally, lenders may consider conditions that are outside of the borrower's control, such as the state of the economy, industry trends, or pending legislative changes.

3. **Organisational structure -** It is important for banks to have a well-defined structure headed by the Board of Directors for managing credit risks. RBI mandates a Risk Management Committee (RMC) for each Bank, with clearly defined responsibilities for managing credit risk. Apart from the RMC, there is a Credit Risk Management Department (CRMD), which measures, controls and manages credit risk across the Bank.

4. **Credit risk modelling -** Banks have been increasingly using credit risk models to estimate the expected loss from a loan. These models estimate the probability of default (PD), the exposure at default (EAD) and the Loss Given default (LGD) to arrive at the final expected loss. Organizations are leveraging Big data and analytics to estimate losses with more certainty. This helps them to better manage credit risk.

5. **Portfolio monitoring -** The Job of a banker does not end with assessment, sanction and disbursal of a loan. In fact, the job actually starts with continuous post disbursal supervision and monitoring. This is particularly important for loans given to corporates. The supervision and monitoring involves the following processes:

   a. Ensuring compliance with the terms and conditions of the loan.

   b. Physically inspecting the factory, godown and the financial statements

   c. Monitoring performance to check the continued viability of operations.

   d. Verifying end use of credit

A close monitoring provides an early warning sign of the possibility of a loan becoming a NPA and thereby a financial loss for the Bank.

What is the role of regulators in managing credit risks in Banks?

1. **Basel regulations -** With the increased globalization of the banking and financial markets it was necessary to have a common platform to address the problems faced by Banks across the world. Accordingly the Basel Committee on Banking Supervision was formed in 1974 by central bankers from the G10 countries. Today there are 45 members. The first Basel Accord (Basel I), finalized in 1988, developed methodologies for assessing banks' credit risk based on risk-weighted assets and suggested minimum capital requirements to keep banks solvent during times of financial stress. Basel II followed in 2004, making it mandatory for banks to consider market risk and operational risk along with credit risk. However before it could be fully implemented the global economy was shaken by the 2008 financial crisis. To ensure regulation, supervision and risk management within the banking sector, the **Basel III accord was signed in 2009.** Basel III introduced

a. Tighter capital requirements in comparison to Basel I and Basel II. It mandated that Tier 1 capital – the main portion of the banks' capital, usually in the form of equity shares – should amount to 8% of the banks' risks weighted assets. (The Reserve Bank of India requirement is 9%). Additionally Banks were required to maintain a capital conservation buffer of 2.5%.

b. Supervisory review by the Central Bank of the country to ensure banks were maintaining the minimum capital as prescribed by BCBS.

c. Market discipline- disclosure requirements that are intended to enable the market to assess information on a firm's risks, capital, and risk management procedures.

2. **Role of RBI -** As the Central Bank of the country, RBI is responsible for supervising the credit risk management of individual Banks. It has provided detailed guidelines on Credit risk Management of Banks (Guidance note on credit risk management_RBI_oct 2002).

a. The risk weight for each asset type is defined by RBI.

b. It is tasked with the responsibility of implementing the Basel III norms in the banks. The Supervisory Review and Evaluation process (SREP), Pillar 2 of the Basel norms clearly defines the supervisory role of the central Bank in this aspect.

c. In India, the implementation started in a phased manner from 1 April 2013. Minimum Total Capital Ratio plus Capital Conservation Buffer as mandated by RBI is 11.5% of the Risk weighted Assets, as against 10.5% prescribed by BCBS. The Basel 3 implementation was supposed to be completed by 31st Mar2020. It has now been extended to 30th Sep2020. For better risk management and avoidance of concentration of credit risks, the Reserve Bank of India has advised the banks to fix limits on their exposure to specific industry or sectors and has prescribed .regulatory limits on banks' exposure to single and group borrowers in India. For e.g The exposure ceiling limits would be 15 percent of capital funds in case of a single borrower and 40 percent of capital funds in the case of a borrower group.

d. RBI has provided detailed guidelines on the Internal Capital Adequacy Assessment Process (ICAAP) for banks based on the Basel guidelines. The onus is on the concerned banks to make their own internal assessment including stress test and scenario analysis of their various risk exposures, through a well-defined internal process, and maintain an adequate capital cushion for such risks to demonstrate that its ICAAP is comprehensive.

Banks are the backbone of an economy and credit is the life line. The economy's growth depends on the circulation of money for which Banks need to provide credit. Managing credit risk is the key to survival of Banks as high defaults lead to poor financial performance. This erodes value for all stakeholders and has a negative impact on prices. It is thus imperative for banks to have a robust credit risk management strategy for it's survival and the growth of the economy.

AWARENESS OF EMERGING RISKS AND PRODUCTIVITY THROUGH EFFECTIVENESS AND EFFICIENCY OF NON-LIFE INSURANCE IN INSURANCE INDUSTRY

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Insurance experience lies in the ability of professional insurance experts and underwriters to assess mutualise the emerging risks, which are new and unforeseen risks whose potential for harm or loss, which is not fully known yet. The losses arising out of emerging risks will affect the productivity of an individual and the economy as a whole. forecasting and understanding uncertainty and risk is precisely what insurance is all about Insurers are aggressively experimenting and innovating new products to indemnify the financial losses which is core social objective of any insurers whether life, non-life Insurer or reinsurer which will help in improving efficiency and effectiveness of Insurance Industry. Non-Life (General/ Property &Casualty) Insurance covers the risks that is other than the life risk. The amount payable under non-life insurance is limited to the actual loss suffered or liability incurred. Insurance education and literacy plays a vital role in insurance inclusion as well as in increasing insurance penetration and insurance reach which is in turn a good sign for any economy which is combating towards existing and new emerging risks and by way of right awareness how these risks can be retained, controlled, mitigated, diversified, and reduced to channelize the overall productivity.

The environmental risks such as weather risks, disaster risks, natural catastrophic risks and economic risks such as rising fiscal deficit, increasing international instability, which will put the global prosperity in turbulence times in coming future, and these risks are posing as a serious concern where the trends lead could lead to more economic stability. The impact of these trends as they collide could be unnerving. Nevertheless, they will only threaten our prosperity and stability if we fail to take action to mitigate the risks now. Therefore, Preparing for immediate uncertainties and tomorrow's risks means reflecting and taking actions on them today.

Among various merging risks discussed currently. Insurers should focus on few below listed risks and integration of all professional and academic bodies of financial accounting,

management accounting, insurance and risks, health authorities, law makers, institute of eminence in business education, social sciences, medical etc. along with the federations of industrial councils should come to an amicable mechanism in mitigating the emerging risks and reduce the financial upheavals resulting in to exponential cascading effecting in the economy. Though the below listed risk are exhaustive we need to Identify the various emerging risks and focus on whether the critical assumptions underlying the strategies where insurers can focus on these areas to enhance the effectiveness and efficiency of Insurance industry which will parallelly contribute towards productivity of other industries and play an important role whether in developed, developing or underdeveloped economies.

Weather based Risks and Climate Change

Weather based risks and climate change emerged as the top risks reflecting the growing concern for and awareness that environmental risks have far-reaching consequences on society. The climate change, biodiversity loss, and environmental degradation are interlinked and self-reinforcing which are again impacting on agricultural produce. Shortages of raw materials and natural resources can drive up costs and reduce production capacity, in turn creating a variety of economic and business disruptions causing the losses in business interruption, slowdown in the business, facing the consequential losses arising out of such risks, which can be innovatively insured by analysing the theory of probability. Adaptation to climate change with the help of insurance mechanism and being responsive towards natural catastrophes disasters. The costs associated in protecting risks and managing risks by way of pooling of resources and inputs from various corners of economy. The reduction of the escalating losses from floods, droughts, typhoons and other climate-related disasters is viewed as essential to eradicating poverty and achieving the millennium development goals and leading towards prosperity of any economy. The United Nations Framework Convention on climate change (UNFCCC) in its Article 4.8 focus on countries which has signed the accord to consider actions, including insurance, to meet the specific needs and concerns of developing economies affecting from the adverse impacts of climate change (United Nations 1992) and similarly in the Kyoto Protocol the Article 3.14 specifically focus on consideration of the establishment of insurance

A main objective of the climate insurance programme and its mechanism is to enable the establishment of public/ private safety nets for stochastic climate-related shocks by assisting the development of insurance related instruments that are on lines of affordability, strategized with actions and incentivising for proactive preventive (adaptation) measures undertaken

As a second layer of support, adaptation of funding from the member countries could be apportioned to post-event relief for weather-related disaster risks that are otherwise uninsured because of data or institutional limitations

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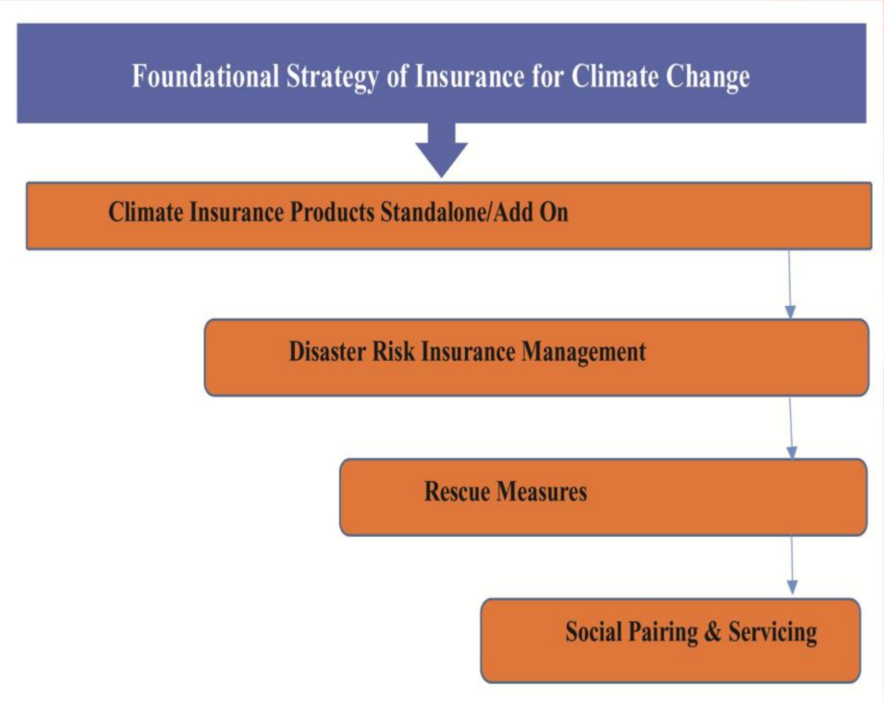
The foundational strategy of Insurance for climate change could be vulnerable. Identifying the risks and costs associated facing these risks and come up with solutions on climate insurance products being a standalone or as on add on cover as per the rapidly changing needs and dynamic situation. Managing an efficient disaster risk insurance management system where such risks can be insured and impact on financial loss and cascading effects of such loss and costs associated with such risks can be controlled and reduced. Initiate a robust mechanism to action upon the rescue measures and social servicing. Creating an awareness on needs and importance of Insurance.



Cyber Security Risks

Cyber risks have emerged as a top concern for risk experts considering the potential economic impact of a exponential large scale cyber-attack. Industry and business houses developing entirely separate technology ecosystems, raising the costs of compliance for businesses. Such developments would emerge with new risks and vulnerabilities, alongside new threats exposed by the eventual development of technology and quantum computing. Government authorities eternize cyber safety and security measures protecting the integrity of critical infrastructure connected to regulators, financial systems, public health, science & technology, institutions, defence, aerospace, intelligence agencies and various undertaking in its ministries. Private enterprises take advantage of building cyber safety and security plans and measures for digital/online data protection to help prevent lost revenues, affecting their brand reputation, and monitor the activities in compliance with the prevailing laws and regulations to avoid potential fines or legal liabilities arising out of such lapses. the nature of risk faced by individuals, government, industries is ever-changing as hacking strategies continue to evolve. A study by Cyber security Ventures is estimating that cybercrime will cost the world $6 trillion a year by 2021. Insurance industry with help of experts should figure out how to handle this massive, relatively new category of cyber risk and how best to protect businesses and organizations from potentially catastrophic breaches and liabilities. Insurance companies offer standalone or as an add on cyber security insurance to mitigate the potential results of a cyber breaches and cyber risks. The dynamic characteristics of cyber risks and threats will continually present new challenges to the insurance industry and its customers. The assessment of Cyber risks is quite challenging where in insurance covers are often more customized making them ultimately more costly. The loss resulting from cyber risks also present a challenge because they can be difficult to detect and assessment of losses and liabilities will be a difficult tasks so insurers can explore on premium costs and due assessment of risks originating from cyber security.

The foundational strategy of insurance for cyber security risks, the risk assessment can be done based on cyber security standards evaluation based on their size and activity of scale of business , cyber security strategy implemented and what kind of risk management plan adopted prioritize the most critical areas of business and analysis of potential threats, Control of Cyber security operations such as who are the key points of access and rights of dissemination of information hierarchy where in designing and implementing the cyber security standard operating model and procedures in compliance with the relevant regulations. Collection and assessment of material facts and information crucial for underwriting and analysis of past related cyber threats and deciding insurance coverage and premiums, cyber security capabilities and assessment where in parallelly keep implanting the new updates and abandoning the redundant practices which will help in maintaining cyber security agility and resilience, placing a strong servicing mechanism which can help in restoration of services, resolving disputes and litigation and increase efficiency in robust claims management with the assistance of technology.

Emerging risks and Liabilities

Losses arising out of liabilities can lead to huge claim pay-outs and adverse claims experience which may vary significantly depending the scale of risks associated with different segments and sectors of industry. It varies from business, industry and present market situation. The liability exposures whether be an individual, organization, government or industry rise from third party damages, environmental, liabilities towards common public, product and services and contractual obligations etc., Liabilities arising out manufacturing, mining, construction and hazardous occupations have seen a significant increase and analysing such risk are becoming more complex Industrial accidents and series of pollution events are presenting greater possibilities of potential risks and increasing liabilities; trends in recent years show international markets accounting for an increasing proportion of the global liability market. It will be a very expensive affair, if it is not backed by an enough insurance coverage before assessing the potential liability risks. The recent actionable in the budget announced by the ministry of finance India on deposit insurance which is now capped at Rupees five lakhs (5 Lakhs) sum insured for all the deposit per individual where the Deposit Insurance and Credit Guarantee Corporation (DICGC) a wholly owned subsidiary of reserve bank of India, have been set up for the purpose of providing insurance of deposits and guaranteeing of credit facilities which comes under the regulations of reserve bank of India. Banks are facing business challenges as more than cover of 5 lakhs they have to come with an model with insurers to protect the balance cover for deposits so that as a bank is relieved with liabilities arising out of business and protect the interest of customers as well as shareholders. The directors and officers liability insurance, which covers the directors and officers personal liabilities due to unlawful acts done in during their managerial capacity. The liability arising out of me too movement where companies may get insurance against harassment charges and litigation expenses. The recent yes bank turmoil, Punjab and Maharashtra cooperative bank case where the directors misused the official duty and involved in aggressive lending violating the regulations, not adhering to corporate governance and not following prescribed norms by the reserve bank of India. Liabilities arising out of various ways can be analysed and insurers can cover such risks by upgrading the existing liability insurance products and incorporate innovations as per the dynamic market conditions and prevailing risks. Companies are facing overseas liability exposures concerning the investor led litigation or product liability. We can experience few cases in international arena where in companies will file cases against china for the recent outbreak of pandemic disease. The liabilities arising such as job loss, business interruption, slowdown in the activities, growing uncertainties, compensation towards public liability, corruption allegations, tax liability etc., this is to note that this type of situation might happened within the country (domestic) and the countries connected on international platform with engaged in foreign trades and services. The pollution and legal liability insurance provides comprehensive insurance coverage to business involved in waste exposures, it covers the regulatory obligations of lender landlords and board of directors, provides coverage for both sudden, unexpected and gradual rise in pollution, safeguarding the policyholders for unknown environmental hazards and liabilities. In case of professional liability insurance sometimes also referred as professional indemnity insurance which can cover legal defence costs, judgements on compensation and settlement costs such covers are usually taken by doctors, lawyers, professional domain experts in relevant industry, chartered accountants, chartered management accountants, artists, teachers etc., Public liability insurance differs depending up on size of the business, type of business and industry category, previous claims history and evidences, business location.

Health Insurance and Health Concerns on Epidemics, Pandemic and Infectious diseases

Innovations in health Insurance is a need to revisit the health care system by formulating flexible health plans at low costs and providing innovative tools and resources and ensure oit of pockets costs can be gradually brought down. The insurers (Both Life , Health and Non-Life Insurers sourcing Health Insurance Business) should work on continuous mortality investigation and continuous morbidity investigation to work on rating of premium and add relevant cost factors associated with various health risks. The implications of co morbidity are unknown. The recent outbreak of corona virus has spiked the number individuals being tested positive and reported deaths followed the same pattern of exponential rise. Epidemics of infectious diseases are eventuate more often, and spreading faster. Growing concerns of pandemic, epidemic and infectious diseases especially after the outbreak of corona virus have called for a portion of health insurance premium pool to be earmarked to combat with catastrophic claims in health segment alone. The behavioural patterns and analysis of morbidity patterns can also be arrived from previous outbreaks such as Ebola, Npah, Zika virus, Severe acute respiratory syndrome (SARS), etc., The medical sciences are exploring the health care mode from reactive care to preventive medicine. Where in The future points to simple, fast and highly personalized need based and tailor made insurance plans based on information from the healthcare system and data from health sensors, wearables, and trackers. Technology will play a vital role.

Conclusions

“There are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. However, there are also unknown unknowns – there are things we do not know we do not know. “Former United States Secretary of Defense Donald Rumsfeld. There may be many such unknown risk which are to be explored, the emerging like risks such as changes in business model, risks associated with upcoming and booming gig economy, high unemployment, underemployment, market crash and complexity, risks arising from Currency wars, Handling cryptocurrency market risks, Free market obstructions, risks from the improved signs new modes and methods of distribution models, sovereign defaults, risks in restructuring the economy, political risks such as regime change, social security challenges and breakdown, risks resulting in to radiation, nuclear risks, terrorism risks, biological wars etc.,

At the cost front, it will also be helpful for insurers to save on operational costs and enhance the underwriting profits and this benefits, in turn, a portion can be passed on to the customers in the form of more affordable policies . The value of premiums depends upon the value of benefits derived from the insurance covers. For Instance in Health insurance segment, due credits given for favourable and healthy claims ratio and cost factors can be adjusted for affordability of future premium payments. Identifying and evaluating the emerging risks, understanding value of such emerging risks and with the help of technology reducing the operational costs on long run and adhere to quality assurance the insurance industry can emerge as catalysts to bridge the gap between the various industries and its widespread segments meeting its customer expectations.

DEVELOPMENTS IN INDIAN BANKING DURING COVID-19 PANDEMIC (MARCH – MAY 2020)

Yes Bank Limited Reconstruction Scheme 2020: The Government has issued Gazette notification following approval of Union Cabinet "Yes Bank Limited Reconstruction Scheme 2020" on March 14, 2020, which provides life line of crisis hit Yes Bank Limited. The reconstruction plan was backed by the SBI, HDFC, Kotak Mahindra Bank, ICICI and Axis Bank. SBI announced it will be infusing Rs. 7,250 crore (for 47.74% stake). Others like ICICI (6.31% stake), Kotak Mahindra (3.5% stake), HDFC (6.31% stake), and Axis (3.5% stake) will invest Rs. 1,000 crore, Rs. 500 crore, Rs. 1,000 crore, and Rs. 600 crore respectively but Yes Bank will remain a private lender. Former CFO and Deputy MD of SBI, Prashant Kumar, will be the CEO and MD of the reconstructed bank.

Earlier of this month, the RBI put Yes Bank under a moratorium, brought the board under its control and announced customers can't withdraw more than Rs. 50,000 from their accounts, collectively. The bank's co-founder Rana Kapoor, was arrested for allegedly receiving kickbacks in return for risky loans. He is being investigated by both the CBI and ED.

Implementation of Mega Bank Consolidation Plan on 1 April 2020: As per RBI plan the schemes for the merger of 10 state-run banks into four came into force from 1 April 2020. The banks sought to defer the merger schemes due to the lockdown triggered by Coronavirus outbreak. Union Finance Minister, Nirmala Sitharaman, however, announced that the megabank consolidation plan would take effect from 1 April 2020 despite the COVID-19 pandemic. RBI also stated that the branches of merging banks will operate as of the banks in which the banks have been amalgamated.

It may be mentioned that on 4 March 2020, the Government of India notified the amalgamation schemes for 10 state-owned banks into four as part of mega consolidation plan. The move aimed to create bigger size stronger banks in the public sector. The amalgamation of 10 PSBs into four Banks include: (i) Oriental Bank of Commerce (OBC) and United Bank of India into Punjab National Bank (PNB) (ii) Syndicate Bank into Canara Bank (iii) Andhra Bank and Corporation Bank into Union Bank of India (iv) Allahabad Bank into Indian Bank
.

Approval of Continuation of RRB Recapitalization Plan: The Cabinet Committee on Economic Affairs (CCEA) approved to continue the process of recapitalization of Regional Rural Banks (RRBs). It approved to provide minimum regulatory capital to for those RRBs which are unable to maintain minimum Capital to Risk-weighted Assets Ratio (CRAR) of 9% for another year, i.e. up to 2020-21. The CCEA also approved the RRB's to utilize Rs.670 crore as central government share for the scheme of recapitalization of RRBs subject to the release of the proportionate share by the sponsor banks.

NABARD Infused Rs 1.46 lakh Crore in Rural Banking System: NABARD has infused Rs.1.46 lakh crore in the rural banking system during the current fiscal. The bank stated that it had given Rs.66,397 crore as short-term credit and Rs.6,704 crore as long-term credit to Rural Cooperative Banks. Regional rural banks (RRB) have availed Rs.14,141 crore in short-term credit and Rs.8,417 crore in long-term credit. Also, other small finance banks have obtained long-term refinance of Rs.37,895 crore. Short-term refinance is essentially for production credit, and long-term refinance aimed at supporting sectors like dairy, poultry, fishery, farm mechanization, irrigation, and non-farm sectors, etc.

Ban on Bandhan Bank Lifted: The RBI lifted its ban on Bandhan Bank after considering the efforts made by the Bank to comply with the licensing conditions. Now, the Bank can expand its branch network. It is to be noted that in September 2018, RBI had banned Bandhan Bank from expanding its network as the Bank failed to reduce the promoters' stake to 40% from close to 82% within the stipulated three-year time frame from commencing operations. The Bank has not complied with the licensing condition on dilution yet. But considering the efforts taken by it, the ban was lifted. It ensured at least 25% of the total number of banking outlets opened during a financial year is opened in unbanked rural centres.

RBI Monetary Policy and Regulatory Changes to Combat COVID-19 Pandemic: RBI, since the onset of pandemic, announced, from time to time, several policy changes and relief packages to combat COVID – 19 related disruption, dislocations and financial stress. Relief measures were announced thrice – 27 March, 17 April and 22 May 2020. These additional measures can be broadly classified into the following four heads:

(i) Expanding liquidity in the system:

- ❖ Reduction of policy repo rate by 75 basis points (from current 5.15% to 4.40% in March). The rate was further reduced by 40 basis points to 4% on 22 May 2020.
- ❖ RBI also reduced the reverse repo rate from 3.75% to 3.35% on May 2020.
- ❖ Auctions of TLTRO (Targeted Long Term Repo Operations) of up to three-year tenure of appropriate sizes for a total amount up to INR 2 lakh crore (USD 26 billion) at a floating rate, linked to policy repo rate.
- ❖ CRR reduced by 100 basis points to 3% beginning from March 28, for 1 year. This will release liquidity of INR 1,37,000 crore across the banking system.
- ❖ MSF raised from 2% of SLR to 3% with immediate effect, applicable up to June 30, 2020.
- ❖ Liquidity coverage ratio for banks reduced from 100% to 80%.

(ii) Reinforcing credit flows on easier terms for the affected sections/sectors:

- ❖ Special refinance facilities for a total amount of Rs.50,000 crore will be provided to NABARD, SIDBI and NHB to enable them to meet sectoral credit needs.
- ❖ Loans for COVID-19 excluded from definition of default.
- ❖ Decriminalization of certain defaults under the Companies Act 2013.
- ❖ The EXIM Bank will be given LoC of Rs.15,000 crore for a period of 90 days from the date of availing with rollover up to a maximum period of one year.
- ❖ RBI has decided to increase the maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks from the existing one year to 15 months, for disbursements made up to 31 July 2020.
- ❖ Bank to avail of a US dollar swap facility to meet its foreign exchange requirements.
- ❖ Lower penalties for default of small companies, one Person Company, producer companies and start ups.
- ❖ NABARD released Rs.20,500 crore to co-operative banks and RRBs for on-lending.

(iii) Easing financial stress by relaxing repayment pressures:

- ❖ Moratorium of 3 months on repayment of installments for term loans outstanding as on March 1, 2020 which was expanded for further three months upto 31 August 2020.
- ❖ Lending institutions are permitted to allow similar deferment for 6 months on payment of interest w.r.t all such working capital facilities as of March 1, 2020
- ❖ Moratorium period to be excluded while computing 90 Day NPA norm for asset downgrade.
- ❖ Time period allowed under RBI framework for resolution extended by 90 days (210 + 90 days)

(iv) Improving the functioning of markets to withstand high volatility:

- Threshold of default under section 4 of the IBC has been increased from Rs 100,000 to Rs 10 million with the intention to prevent triggering of insolvency proceedings against MSMEs.
- Fresh admission of Insolvency cases under IBC, 2016 suspended for 12 month in an effort to stop companies at large from being forced into insolvency proceedings.
- Complete waiver of minimum balance charges for Savings Bank account.
- Debit card holders can withdraw cash from any bank ATM for free of charge.
- Bank charges for digital trade transactions will be reduced for all trade finance customers.
- Implementation of last tranche of 0.625 % of capital conservation buffer deferred to September 30, 2020.
- Banks in India that operate IFSC banking units allowed to participate in offshore INR NDF market w.e.f. June 1, 2020

Supreme Court (SC) Places Cooperative Banks under SARFAESI Act at par with Other Lenders: The SC brought cooperative banks under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Act of 2002 (SARFAESI Act). The move by the apex court aims to boost the recovery strength of Cooperative Banks that play a vital role in financial inclusion across India.

RBI Sanctioned Rs. 50,000 crore Liquidity Support for Mutual Fund and Extends Regulatory Benefits under Special Liquidity Facility for Mutual Fund (SLF-MF): The RBI announced Rs.50,000 crore liquidity support for Mutual Funds on 27 April 2020 under SLF-MF. RBI's move comes after Franklin Templeton's decision to close 6 debt funds and put redemptions on hold indefinitely. The RBI further extended the regulatory benefits of SLF-MF scheme to all banks, irrespective of whether they avail funding from RBI or deploy their own resources under the scheme. Any bank that meets with the liquidity requirements of mutual funds by extending loans and undertaking outright purchase or repos against the collateral of investment-grade corporate bonds, commercial papers, debentures and certificates of deposit held by mutual funds will be eligible to claim all regulatory benefits.

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