# *ALL INDIA BANK OFFICERS' ASSOCIATION*

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# FINANCIAL SECTOR
# WEEKLY NEWS UPDATES
# 29th April to 04th May 2019

## Finance Ministry to take call on bank recap after September

The Finance Ministry will review the capital infusion requirements of PSU banks after September and there will be separate allocation for recapitalisation in the general Budget likely to be presented in July. Sources said the interim Budget did not have the provision for any recap from April to July as the banks were adequately capitalised till September. According to official sources, by September (end of second quarter), the capital position with regard to the regulatory requirements and growth of all the PSU banks which received funds in 2018-19 will be clear. The remaining PCA (Prompt Corrective Action) banks will also require fresh funds to come out of the Reserve Bank of India's (RBI) framework for weak banks. But for this, the banks would have to match the performance parameter targets required for PCA removal and would have to show improved performance. In 2017, the government announced its Rs 2.11 trillion PSU bank recapitalisation plan, in which Rs 1.35 trillion was to come from the sale of recapitalisation bonds and the remaining Rs 76,000 crore through the Indradhanush plan (Budgetary allocation) and fund raising from the markets by non-core assets sales. The bank recapitalisation package saw a sharp increase over the budgetary allocation. In February 2019, the government had announced capital infusion of Rs 48,239 crore into 12 public sector banks to help them maintain regulatory capital requirements and finance growth plans. Before that in December 2018, the Finance Ministry had increased capital infusion into these banks for FY19 by a combined Rs 41,000 crore to Rs 1.06 lakh crore from the originally planned Rs 65,000 crore. Now the entire recap amount has been exhausted. After the removal six banks from the PCA framework, Central Bank of India, IDBI Bank, Indian Overseas Bank, UCO Bank and United Bank of India remain under the PCA now. Moody's Investors Services had recently said that a complete turnaround of the banks was still away due to their large quantum of legacy bad loans.

## View: Next govt must have single-minded focus, revive private investment

With less than a month before election results are announced, the inevitable question is what should the next administration's economic priorities be? It's easy to rattle off a laundry list. But a long list is meaningless precisely because if political capital and state capacity are dispersed so widely, key priorities are unlikely to get due attention. Instead, the question should be: what are the binding constraints to strong, sustainable and job creating growth in India? I would argue there are at least two. First, India's growth is not being led by private investment, which limits both its strength and sustainability. Second, growth is not creating commensurate jobs, because the "effective" cost of labour – relative to capital – is too high. India's growth is therefore much too capital intensive given her labour endowment. Only when these constraints are alleviated, will high growth sustain and commensurate jobs be created. First, private investment. Concerns have resurfaced about growth weakening again. There clearly are several soft spots, but prophecies of gloom appear overstated. Bank credit growth is the highest in 5 years, slowly broadening out to infrastructure and large corporates, and the total flow of funds to the commercial sector is robust, the NBFC slowdown notwithstanding. Cement and steel sales and exports have all picked up smartly in recent months. Finally, the global prognosis has meaningfully improved as global financial conditions ease, trade war risks recede and China's stimulus kicks in. Consequently, India's manufacturing capacity utilisation rates have progressively risen to their highest level in 6 years, explaining why core inflation remains above 5%. Contrary to the current pessimism, therefore, there is a growing likelihood that if political uncertainty dissipates post the elections, capacity utilisation rates keep rising, and continued NPA resolution creates more balance-sheet space, private sector investment may finally begin to revive in the coming quarters. Instead, the biggest risk to a sustained private investment cycle emanates from how it will be financed. Fiscal crowding out risks are real. The total public sector borrowing requirement (PSBR) remains a hefty 9% of GDP, even excluding borrowing by state public sector enterprises. This is virtually eating up all of household financial savings. Unsurprisingly, India's yield curve has remained so steep and kept borrowing costs elevated. How then will a private capex cycle be financed? Some argue that household financial savings are much higher than reported. Unfortunately, this falls victim to the tyranny of macroeconomic identities. We know an economy's current account deficit is simply the investment-savings gap. Therefore, if savings are higher than reported, the current account deficit (CAD) must be lower. Are we therefore saying CAD – computed independently – is also overstated? Alternatively, if CAD is unchanged, higher than reported savings must necessarily entail higher than reported investment. But then growth can't be as weak as claimed? Also why would the yield curve be so steep if there was a glut of unmeasured formal financial savings? Sustained price pressures never lie. Instead, the challenge is to ensure any pick-up in private investment is not accompanied by much higher market interest rates or a much wider current account deficit. Since the current account is simply an economy's investment-savings gap, this can only be avoided if either (i) public sector borrowing and the fiscal is reined in, or (ii) household savings are lifted. While savings are pro-cyclical, the impacts are lagged and incomplete. If real interest rates are brought down too aggressively, they will boost investment, but simultaneously reduce savings, and exacerbate the investment-savings mismatch. Counter intuitively, therefore, both fiscal and monetary conservatism is required to nurture a private investment cycle. This must be accompanied by improved bank governance so the current acceleration of credit does not culminate in another NPA crisis, as well as preventing any backsliding of the Bankruptcy Law so resolution does not stall. All told, private investment remains the key to sustained growth, and the building blocks of a new cycle (capacity utilisation, NPA resolution, bank recapitalisation) are progressively falling into place. It's now up to policy to ensure it's not prematurely extinguished. But even if private investment revives, will it create jobs? Only if the "effective" cost of labour – relative to capital – is brought down so production technologies become more labour intensive. Technological progress has improved capital productivity, dramatically reduced the relative price of machinery and equipment – and therefore the effective cost of capital – over the decades. In contrast, India's effective cost of labour remains inordinately high both because of strangulating labour laws (on the demand side) and educational/ health/ skilling constraints (on the supply side). Back in 2000, two-thirds of India's export basket comprised labour intensive exports (agriculture, textiles, gems jewellery, leather). Today 50% comprise capital intensive auto parts, pharmaceuticals, capital goods. Research has shown labour intensity in organised manufacturing has fallen by a factor of 5 in the last three decades. This explains the growth-jobs disconnect! Policy therefore urgently needs to reduce the “effective” cost of labour by chipping away at labour laws, lengthening “job contracts” to incentivise on-the-job skilling, pushing hard on health and education, and avoiding fiscal subsidies to capital (like accelerated depreciation). Only then will the economy create the quantum of jobs needed to pull people out of agriculture, as China did. The next administration must have a single-minded focus: revive private investment and make labour more attractive as a factor of production. Without this, we will simply be tinkering at the margins.

**Disclose defaulters list, NPAs of banks under RTI: SC gives final warning to RBI**

NEW DELHI: The Supreme Court told the Reserve Bank of India (RBI) on Friday it was giving “a last opportunity” to provide information to the public under the Right to Information (RTI) Act on defaulters and audit and inspection reports of banks and other financial institutions. This also includes any information the regulator collects as part of its public duties such as show-cause notices, fines and action-taken reports. The court, reaffirming a December 2015 ruling asking the central bank to furnish such details under RTI, however didn’t initiate contempt action against the regulator. “Though we could have taken a serious view of... continuing to violate the directions issued by this court, we give them a last opportunity to withdraw the disclosure policy in so far as it contains exemptions which are contrary to the directions issued by this court,” it said. Following the 2015 ruling, the regulator had put in place a disclosure policy in November 2016 barring the release of information related to inspections and sparking the contempt petitions. The RBI was duty bound to furnish “all information relating to inspection reports and other material” except advisory notes that were sensitive in nature, the court said on Friday. “Any further violation shall be viewed seriously by this court.” Under the 2016 disclosure policy, information obtained from or submitted by banks and financial institutions and held by the central bank in a fiduciary capacity couldn’t be given to the public. The contempt petitions by RTI activist Subhash Chandra Agrawal and others had cited the RBI’s refusal to share information on the 2008 forex derivatives scam and action taken reports against banks and financial entities. The RBI initially claimed in another case involving Housing and Urban Development Corp. (Hudco) that there were several other laws that barred the sharing of sensitive information such as defaulters’ lists and that the RTI could not override them. It sought a reconsideration of the court’s 2015 ruling. The regulator had handed over a list of defaulters in a sealed cover to the top court headed by then chief justice of India JS Khehar. That case is still pending. One of the lawyers for the petitioners, Prashant Bhushan, said on Friday that the disclosure policy was contrary to the 2015 court ruling. The bench of justices L Nageswar Rao and MR Shah said that the 2015 ruling had rejected the RBI’s claim that such information was fiduciary in nature and would adversely affect public confidence in the banking sector and could be shared. The central bank has a statutory duty to uphold the interest of the public at large, depositors, the economy and the banking sector. It should act with transparency and not hide information that might embarrass individual banks, it said, citing the earlier ruling.

The intent of the legislature was to make available to the general public such information which had been obtained by public authorities from private bodies, it noted. The RBI was hence liable to provide information regarding inspection reports and other documents to the general public. It could deny information though to guard national security, sovereignty, national economic interest and relations with foreign states etc. Matters of national economic interest, disclosure of information about currency or exchange rates, interest rates, taxes, regulation or supervision of banking, insurance and other financial institutions, proposals for expenditure or borrowing and foreign investments could in some cases harm the national economy, particularly if released prematurely, the 2015 ruling had said.

However, non-critical economic and financial information such as contracts and departmental budgets should not be withheld under this exemption, it said.

**Sebi bars NSE from securities market for 6 months in co-location case**

NEW DELHI: Markets regulator Sebi has barred leading stock exchange NSE from securities market for a period of six months in co-location case. The regulator has also asked the exchange to disgorge an amount of Rs 624.89 crore along with interest calculated at the rate of 12 per cent per annum to the Investor Protection and Education Fund (IPEF). NSE has also been directed to audit its systems at frequent intervals. Sebi has also issued orders against 16 individuals including former managing directors and CEOs Ravi Narain and Chitra Ramkrishna. The co-location case dates back to 2015, when a whistle-blower wrote a letter to Sebi alleging that the NSE gave preferential access to a few high-frequency traders and brokers to the exchange's trading platform.

More to come...

The whistleblower had alleged that some people had figured out that the way to game the system by becoming the first one to connect to the server and preferably a server, which was the fastest. Experts were of the view that the order was fair. “I think the order is fair. The integrity of capital markets is important,” said Shriram Subramanian, founder of InGovern, a proxy advisory firm. Subramanian said the order meant that NSE will not be able to invest in securities market or come up with an IPO over the next six months. “There would have been digital footprints. This was long expected. The only thing that Sebi might have figured is it happened with the knowledge of former MDs,” he added. Sebi in its order on Tuesday also asked NSE to initiate an enquiry under its employees regulations against Mahesh Soparkar and submit a report to the regulator within six months.

**Shaktikanta Das seen as safe no matter who wins 2019 general elections**

**by Anirban Nag and Vrishti Beniwal**

Reserve Bank of India Governor Shaktikanta Das has built up support on both sides of the political divide, making his position relatively safe under a new government no matter who wins the election. As an ex-career bureaucrat, Das has worked under governments led by both Modi’s Bharatiya Janata Party and the opposition Congress. He’s likely to stay in his post after India concludes its election process on May 23, central bank watchers say. That should be a relief to investors who had to grapple with a fair bit of upheaval at the Reserve Bank of India late last year. Urjit Patel resigned abruptly as governor in December after tussling with Modi’s government over a number of issues. Das was appointed shortly after for a three-year term that ends in December 2021. “Das has worked with distinction with both governments and therefore the probability of his continuing and completing the tenure should be extremely high," said Ashok Chawla, a former top government official who worked with Das in the finance ministry. Before becoming governor, Das was economic affairs secretary in Modi’s government, and the public face of the prime minister’s controversial decision in November 2016 to ban high-value currency notes. Since his appointment at the central bank, he’s taken a number of steps to support the economy and that helps Modi’s regime: he’s lowered interest rates, relaxed lending norms for banks to increase credit flow, and named a panel to consider transferring the RBI’s excess capital to the government. Comfortable Working He’s just as comfortable working with a Congress-led government. As an official in the finance ministry under then Prime Minister Manmohan Singh, he was instrumental in preparing general budgets, working closely with then-Finance Minister P Chidambaram. “He’s a close follower of Chidambaram, so he will be comfortable” in a Congress-led government, said Subramanian Swamy, a lawmaker from Modi's party. Even so, Chidambaram's Twitter post following Das's appointment as RBI governor suggested he wasn't too happy with the decision. Das was moved to the fertilizer ministry in December 2013 after a five-year stint at the finance ministry under the then Congress-led government. Modi brought him back to the finance ministry soon after coming to power in mid-2014, appointing Das to head up the tax department, which was trying at the time to win back investors' confidence. Addressing Concerns Modi's government has tried to show it's more business-friendly, and Das has taken a more conciliatory approach toward banking sector regulations compared to his predecessor. He has been meeting with bankers to hear their concerns about liquidity constraints in the economy, and given more leeway to small and medium scale enterprises with regard to their loan repayments. Patel, who wanted to clean up a banking system saddled with the worst non-performing loan ratios among the world's major economies, had repeatedly clashed with the government about relaxing lending rules for some weak state-run banks. Das has eased those curbs in recent months, including allowing weak banks to lend again. "The decision by the RBI to remove a number of public sector banks from the strict lending restrictions relatively soon after the new Governor's appointment does suggest a softer approach towards central bank regulatory supervision of the troubled public sector banks," said Rajiv Biswas, APAC chief economist at IHS Markit, Singapore.

**Bad debt norms: RBI to seek Election Commission nod**

MUMBAI/NEW DELHI: After much deliberation, the RBI is expected to approach the Election Commission to put in place a new circular on bad debt resolution, paving the way for smooth implementation of the Insolvency & Bankruptcy Code and loan restructuring by banks. The move is crucial after the Supreme Court set aside the controversial February 12 circular issued by then governor Urjit Patel. The RBI was initially planning to issue the revised circular that is expected to give more flexibility in restructuring stressed loans as against the rigid timelines for initiating bankruptcy under the older directive. It is now coming to the view that an explicit approval from the Election Commission is required as it is a new policy decision. The EC code of conduct specifically exempted the conduct of monetary policy, which is considered crucial for the economy. The circular issued in February 2018 had caused consternation among banks and corporates for three reasons. First, it did away with all the debt restructuring scheme. Second, it forced lenders to arrive at a resolution acceptable to 100% of creditors within 180 days of a default failing which they had to initiate bankruptcy proceedings. It made the process of resolution tougher as the plan had to certified by a rating agency and required a fifth of the principal to be repaid within a year. If the promoter was not in a position to repay within a year, the lenders would have to take the borrower to NCLT. Lenders were expecting that the RBI would dilute a condition requiring 100% of approval among lenders. They were also expecting that it would relax restructuring norms so that banks are not forced to drag borrowers like power companies to NCLT where the scope of recovery would be dim given the nature of the projects which had little liquidation value. The quashing of the circular also makes it difficult for lenders to enforce their original plan of Jet Airways where they would convert one rupee of debt into 50% of the company's equity. In 2014, the central bank had sought the Election Commission's permission before announcing the grant of in-principle approval of bank licences for Bandhan and IDFC banks before voting began. It was only after the EC cleared the announcement that the RBI issued its press release. Earlier this month, SBI cancelled an event to announce carving out a new Mumbai Metropolitan Circle from its Mumbai region out of concern that it might violate the EC code of conduct. This was despite the work for bifurcation starting in 2018. According to sources, the RBI is keen to ensure that the current momentum of initiating insolvency proceedings against defaulters is not lost.

*ITEMS COMPILED & EDITED FROM NATIONAL, INTERNATIONAL FINANCIAL DALIES, WEEKLIES, WEBSITES.*

**View: Supervisory independence is as important as monetary policy independence for RBI**

A mole in the Indian Banks' Association (IBA) headquarters in Mumbai reports a sense of quiet satisfaction instead of the usually sombre mood among bankers who come to IBA's Cuffe Parade office, seeking its intervention with banking sector regulator, Reserve Bank of India (RBI). No prizes for guessing why. Over the last few months, RBI has been hauled up by more than one authority — and on more than one occasion. Hence the schadenfreude (pleasure derived at another's misfortune) among bankers, many of whom have been at the receiving end of RBI's ivory tower approach to regulation. After all, it's not often the regulator gets a taste of its own medicine.

**Get Up From the Wrong Side**

The most recent instance is of the Supreme Court pulling up RBI for failing to make its inspection reports public. Prior to that, the apex court declared RBI's Feb 12, 2018, circular ultravires or beyond RBI's legal authority. Striking it down in to-to, the apex court declared RBI could not apply a blanket rule on non-repayment of loans to all bank borrowers, but could only do so on a case-by case basis. These are not the only instances where the once-invincible RBI has been put on the mat. Earlier, Kotak Mahindra Bank questioned RBI's directive to reduce promoter Uday Kotak's stake; and rather than fall in line like, say, Bandhan Bank, opted to take RBI to court. The National Company Law Appellate Tribunal (NCLAT) ruled against RBI directing banks to classify their exposure to IL&FS as 'nonperforming', without NCLAT's prior permission. More recently, the Supreme Court restrained banks from declaring the dues of Reliance Infrastructure's subsidiary, Delhi Airport Metro Express, 'non-performing' until further orders. All this is a far cry from the days when RBI's word was law. Sure, there were instances in the past when its authority was challenged. But these were few and far between. In contrast, RBI's decisions are now being questioned with uncommon frequency. It's as if the same public, that once placed RBI on a pedestal, has discovered its feet of clay. The Supreme Court going so far as to warn RBI of contempt of court and NCLAT's Justice S J Mukhopadhaya reprimanding RBI, accusing it of making the NPA classification a prestige issue. How should we respond to these developments? Welcome them, as an overdue democratisation of RBI's powers? Or, more warily, as warning of a potentially dangerous decline of RBI's supervisory independence and the majesty that must, necessarily, be part of the aura of any regulator; more so one responsible for ensuring financial stability? Remember what EU head Jacques Delors said about the German central bank, back in 1992? 'Not all Germans believe in God, but they all believe in the Bundesbank? Even if the RBI does not enjoy quite the same halo in the eyes of Indians, there is the very real danger that such instances, especially of judicial overreach, could seriously impair the central bank's ability to discharge its responsibility as banking sector regulator and custodian of the country's financial sector stability. And that is unambiguously bad news in a fledgling democracy where we need an apolitical regulator to guard our financial stability. Ironically, RBI is not the only banking regulator to find its supervisory independence under attack. In a development uncannily similar to the RBI's run-in with courts, the European Central Bank (ECB) directive to banks to maintain provisions for deteriorating assets was challenged by the European Parliament. 'Prudential provisions can only be applied case-by-case, not across the board,' said the European Parliament.

**Judgement Day Really?**

How can parliamentarians be better informed than the ECB on a technical matter, such as provisioning for bad debts? Likewise, how can the NCLAT or the apex court be better qualified than RBI to opine on the definition of 'non-performing'? The problem really is that while few will disagree on the merits of monetary independence, the case for supervisory independence is still evolving. Time inconsistency (a reference to the political class' tendency to favour short-term goals, ignoring long-term costs) has often been used to argue in favour of monetary policy independence. But it is no less relevant for banking supervision. If a regulator issues tough regulatory norms, but is then forced to backtrack due to judicial or legislative overreach, then expectations of a lax regulatory regime will set in. With serious adverse consequences, long-term. So where does one draw the line? The answer: by carefully separating the wheat from the chaff, i.e., by separating purely technical issues from issues with larger macroeconomic implications. Loan classification, for instance, is a strictly technical issue on which only RBI, as the regulator responsible for the safety of banks, should have the final say. Interference by courts runs the risk of introducing discretion in loan classification and opens up a Pandora's box. However, in other areas, where, for instance, valuable assets have been created with public money, as with stressed power assets, RBI needs to take a more nuanced stance, even as it puts wilful defaulters on the mat. Wider consultation could help. Directives framed after consulting all interest groups are less likely to be misunderstood/challenged, either in court or through legislation. Unfortunately, this is precisely where RBI often falls short.

**NBFCs aim to tap overseas loan market raising $200-400 million each**

Non-banking finance companies including Piramal Capital Housing, Bajaj Finance, Hero FinCorp, L&T Finance, Tata Financial Services, and IIFL Finance are now going beyond bonds to seek loans from overseas banks in the form of External Commercial Borrowing (ECBs). While they are willing to be exposed to currency risks partly, they want to diversify their funding pattern. Each company aims to raise about $200-400 million in the next few weeks, multiple people with the direct knowledge of the matter told ET. IIFL Finance may raise up to $500 million. Companies are in the process of raising such money. Maturities of such loans are likely to be in the range of three to five years. Most issuances are likely to take place after India's general election results amid expectations of a stable government. L&T Finance, Piramal Capital Housing, Bajaj Finance declined to comment on the matter. An email sent to Hero FinCorp remained unanswered. “We will continue to diversify our borrowings further across various sources such as banks, ECBs, bond market, among others,” said Rajiv Sabharwal, managing director and CEO at Tata Capital. “Diversification of liabilities has always been our philosophy at Tata Capital and should be a standard practice for all NBFCs.” “Non-banking financial entities with a strong parentage will get an edge over others for overseas fund raising,” he said. In terms of funding costs, it may be on par or even slightly higher than domestic borrowings, although it depends on individual company brands and loan exposures in home loans and builders' loans. “Investors have their own perception of individual companies as they value them differently,” said one of the persons cited above. L&T Finance loans are estimated to be priced after adding 160-170 basis points (known as spread in market parlance) over the six month London Inter-bank Offered Rate (LIBOR), the benchmark against which such offshore loans are priced. Hero Fin-Corp may have to pay a higher spread in the range of 240-250 basis points. Such spreads may go up as much as 350 basis points for Piramal Capital & Housing Finance, dealers said. Tata Financial Services may obtain a spread of 175-200 basis points over the benchmark rate. Investment bankers including Standard Chartered Bank, JP Morgan and Barclays are said to be helping these companies to raise the money. Individual banks could not be contacted immediately for comment. Road shows have also begun. Such syndications should be materialised over the next four-six weeks, bankers said. All these companies are already in the fray to sell dollar-denominated bonds to overseas investors. Shriram Transport Finance has already hit the market raising nearly $1 billion via two tranches.

**Hauling Deloitte & KPMG over coals may singe India Inc**

MUMBAI: With the spectre of punitive action hanging over Deloitte Haskins & Sells and BSR & Co, a member firm of the KPMG network, in the IL&FS case, any scaled-down presence of the Big Four auditors in India may pose a problem for top companies and confound global investors. The Deloitte and KPMG groups audit more than 250 companies that make up about 40% of the market capitalisation of listed Indian companies. In case of a ban on them, like the one imposed on PwC, there aren't enough quality audit firms that companies can seek in their place. The 'concentration risk' that the Big Four pose to the global markets is now suddenly a clear and present danger in India, too. Outside of big six — EY, Deloitte, KPMG, PwC, Grant Thornton and BDO — there are less than 25 Indian firms with more than 20 partners. The regulators face a dilemma because the big firms have practically become too big to fail, something their Indian rivals have pointed out for long. The problem is compounded because when an emerging market like India wants to attract more global investments, the Big Four play a role in providing comfort to investors.

**'Whole System Needs Revamp'**

Even after rotation of auditors mandated by the Companies Act, 2013, the Big Four still managed to snag a big share of listed company audits. "The Big Four dominated with the market capitalisation of the companies audited by them being 67% of the total market capitalisation of all companies listed at NSE during 2018-19," said Pranav Haldea, MD of Prime Database Group. ET reported on Wednesday that the government-appointed board of Infrastructure Leasing & Financial Services (IL&FS) had proposed punitive action against the two audit firms for failing to issue warnings about shortcomings while auditing the books of IL&FS Financial Services. With the National Financial Reporting Authority, Institute of Chartered Accountants of India and Serious Fraud Investigation Office probing the role of the audit firms in IL&FS-related cases, their other clients are getting confusing signals. "We need to get away from the guilty-until-proven-innocent thinking. The need of the hour is to empower one regulator to quickly finish the investigation and then let the law take its course," said Vishesh Chandiok, CEO of Grant Thornton. Deloitte, KPMG and EY didn't respond to ET's questionnaire.

Indian audit firms have tried unsuccessfully to fight the growing dominance of the bigger firms and had even proposed joint audits as a solution. "India is suffering huge systemic risks," said Raghu Aiyar, CEO of KS Aiyar & Co, India's oldest audit firm. According to Aiyar, the top 20 Indian audit firms had written to the prime minister in July 2016 to highlight the "impending crisis like situation in the profession" from the conduct and concentration of the multinational audit firms in India. He alleged that despite positive directions by the PM's office through mechanisms such as the joint audit committee and the committee of experts, the regulators opposed them, taking the situation backwards and further supporting the multinationals. "What had been warned by Indian audit firms has now come to pass," said Aiyar.

**BIGGER PROBLEM**

Even so, auditors say they are being singled out and they are only part of a bigger problem that needs to be fixed. "Each government arm is looking through a limited lens without understanding the issues in entirety. The whole system needs a revamp: ratings agencies, independent directors, regulators, audit firms," said an ex-ICAI president. "For auditors, the dilemma now will be to sign off an account and practically kill the company's ability to stay afloat or stay back, give honest qualifications and help the management turn around things. People don't understand that the responsibility for financial statement presentation lies with the company's management — we just provide an independent opinion." "Serious reforms are needed in terms of how governance structures are implemented in the company. The government needs to lay down the order of priority for responsibility of various stakeholders. Audit willy-nilly becomes a soft target among internal and external stakeholders," said an ex-Andersen partner. Some experts said the Big Four need to reorient their culture. "The focus should be on excellence, not revenue and cross-sales," said Girish Vanvari, founder of Transaction

Square, a business advisory firm. The Securities and Exchange Board of India barred PwC from auditing listed companies for two years in January 2018 in an unprecedented move 10 years after the Satyam scandal. Globally, audits firms are reprimanded, fined or stopped from taking on new audits, but Sebi changed the game by barring PwC from auditing listed clients for two years. Experts said clients were punished along with the firm for no fault. “Globally, the best regulators investigate whether it’s a one-off transgression or a systemic fault and then they punish audit firms accordingly. Indian regulators are still evolving,” said the ex-ICAI president. Recently, the UK’s Competitions and Markets Authority studied the oligopolistic structure of the audit market and the inherent conflict of interest between the audit and non-audit businesses of the firms. It suggested mandatory joint audits with non-Big Four firms because the current structure was skewed in favour of the Big Four and restricted choice.

**Continued loss of biodiversity and ecosystems will undermine ability for poverty reduction**

Scientists and representatives of 130 governments are meeting in Paris under the aegis of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), an independent intergovernmental body, to finalise a global assessment of the state of nature. The ongoing deliberations are expected to provide the basis for a rescue plan for life on the planet that experts hope will be used by governments to inform better policies and actions. The assessment, and a shorter summary for policymakers, to be made public on Monday, will demonstrate the importance of biodiversity, the continuing loss of biodiversity, the underlying causes for the loss of biodiversity, the plausible future of biodiversity and the range of policies, practices, and governance structures that can be used by governments, private sector, and civil society to conserve and sustainably use biodiversity. Addressing the gathering, IPBES chair Sir Robert Watson stressed on the urgency for action in the face of a historical and rapid loss of biodiversity and degradation of the ecosystem. "The evidence is incontestable - our destruction of biodiversity and ecosystem services has reached levels that threaten our well-being at least as much as human-induced climate change. We have a closing window of opportunity to act and narrowing options - which underscores the importance of these negotiations”, said Watson. This will be the first intergovernmental global assessment by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), an independent body set up by member states in 2012, to provide objective scientific assessments on the state of biodiversity, ecosystems, and the benefits they provide. This most comprehensive analysis of nature is the first since the Millennium Ecosystem Assessment in 2005. The 2005 report played a key role in highlighting the importance of biodiversity to human well-being and that most of the regulating services were in decline. The IPBES Global Assessment, prepared by 150 international experts from 50 countries, draws on nearly 15,000 references, including scientific papers and government information. In its preview, the IPBES said that the report will be the first global assessment ever to systematically examine and include indigenous and local knowledge, issues, and priorities. The assessment covers all land-based ecosystems except Antarctica, inland water and the open oceans. It evaluates changes over the past 50 years, along with implications for economies, livelihoods, food security and quality of life and explores impacts of trade and other global processes on biodiversity and ecosystem services. The assessment ranks the relative impacts of climate change, invasive alien species, pollution, sea and land-use change, and a range of other challenges to nature. It also identifies priority gaps in available knowledge, and projects future of biodiversity under six future scenarios: Economic Optimism; Regional Competition; Global Sustainability; Business as Usual; Regional Sustainability; and Reformed Markets. Finally, the report will assess policy, technology, governance, behaviour changes, options and pathways to reach global goals by analyzing synergies and trade-offs between food production, water security, energy and infrastructure expansion, climate change mitigation, nature conservation and economic development. “The report will look at the intangible contributions that biodiversity makes to our quality of life, our identity and our cultural heritage. Things that are forcing us to look more closely at our environment," said Anne Larigauderie, executive secretary of the biodiversity and ecosystem science-policy panel. The summary for policy makers, based on the more than 1000-page assessment report, the regional assessments and land degradation and restoration assessments, is currently being negotiated and finalised. There is, however, little doubt based on scientific research of the past few years that the world is experiencing an extinction crisis according to some estimates the world is losing species at approximately 1000 times the natural extinction rate. The import of biodiversity and ecosystem loss is far broader than species loss. "Nature holds the key to sustaining all life on Earth. We depend on it for our basic needs which rely on a complex web of processes, powered by millions of plants, animals and wildlife species we share our planet with. However, nature and biodiversity are declining rapidly," said Rebecca Shaw, Chief Scientist, WWF. Watson, who earlier headed the Intergovernmental Panel on Climate Change (IPCC), said that the loss of biodiversity, just like the human induced climate change, is not only an environmental issue, it is a social, security, moral and ethical issue. "The continued loss of biodiversity will undermine the ability of most countries to achieve most of the sustainable development goals and in particular undermine our ability for poverty reduction." Stressing on the need to act, Anne Azoulay, director-general of UNESCO, said, "we cannot continue on the path we are on today. By continuing to do everything as we have done before we will be plundering our future generations, we will be doing away with our common heritage accumulated over millennia as well as the beauty of the living world." The UNESCO chief stressed that the report will remind each of us of the obvious truth: the present generations have the responsibility to bequeath to future generations a planet that is not irreversibly damaged by human activity. At the same time, Azoulay reminded that the task is not impossible: "our local, indigenous and scientific knowledge is proving that we have solutions and so, no more excuses: we must live on Earth differently". The message is clear. The IPBES global assessment will underscore what has become increasingly clear, it is now time for decisive action. "If we want to thrive on a planet that looks similar to the one we're on now, we must quickly disrupt business as usual and embrace transformative global change, securing abundant clean air, clean water, natural lands, healthy oceans, and glorious species biodiversity for future generations", writes Zak Smith, senior attorney with the Nature Programme of the Washington-based Natural Resources Defense Council. Drawing on the recent fire at the Notre Dame de Paris, when Parisians and people across the world experienced a sense of loss that "they had lost a bit of themselves, their identity" Larigauderie said that the evidence of the impoverishment of the living world contained in the global assessment evokes a similar sense of loss. She said that assessment "will provide the scientific basis for making biodiversity the great rallying cause, along with climate change." The IPBES chair, and former IPCC chair, repeatedly stressed that the assessment and work by the biodiversity and ecosystem science policy panel was as important as that of the climate change science panel. Watson said, "it is critical that the issues of loss of biodiversity and climate change are recognised to impact each other, and recognised to be of equal importance and must be tackled together." Watson hopes that like the adoption of the Paris Agreement in December 2015, which was a critical moment in the battle against global climate change when governments, business and civil society finally united behind overwhelming scientific evidence and committed to taking action, the seventh plenary of the IPBES will be the start of a similar "Paris moment" for biodiversity and nature's contributions to people.

**<u>Money laundering Act to curb GST frauds?</u>**

NEW DELHI: The Central Economic Intelligence Bureau (CEIB) is of the view that use of the stringent Prevention of Money Laundering Act could be considered to curb and deter fraudulent input credit tax, claimed by companies generating fake invoices of Goods and Services Tax. A proposal was recently floated by the CEIB, which has said that in the previous financial year, till December 2018, input tax credit was fraudulently availed by creating fake GST invoices to the tune of Rs 4,000 crore. This is just a small fraction of the actual tax evasion and money laundering using shell companies. Invoices generated without actual supply of goods to the tune of Rs 24,000 crore has been detected last year by the Directorate General of GST Intelligence. The CEIB study says fraudulent claims of input tax credit at the state level could be larger. Invoices are generated without actual movement of goods and suppliers down the line claim input tax credit based on such fake invoices. Money earned through these fake transactions is actually black money and laundered by entities creating web of shell companies. Through the CEIB, the nodal agency for economic intelligence, the government monitors economic crimes across the country investigated by several revenue intelligence agencies. Intelligence agencies are required to regularly share and update progress of their cases and probe details with the CEIB. The fraudulent claim of input tax credit by suppliers based on fake GST invoices is contravention of Section 16 of the GST Act, which the agency has proposed to be made a predicate offence so that the ED or any other agency can book such entities under the PMLA and attach their properties and those of their associates. TOI had reported earlier that the CEIB has approached the finance ministry seeking orders from the revenue department to all other revenue intelligence agencies to share real-time data and investigation updates on their cases to ensure that a coordinated action is taken against offenders and tax evaders. The generation of fake invoices and involvement of shell companies in taking bank loans have come to light in several cases investigated by the agencies.

**RBI's revised guidelines for resolution of stressed assets likely before May 23**

The Model Code of Conduct for the Lok Sabha polls is unlikely to have any bearing on issuance of a revised framework for resolution of stressed assets by the Reserve Bank and the guidelines are expected to be announced before May 23, sources said. Against the backdrop of the Supreme Court quashing an RBI circular, issued on February 12, 2018, a revised set of rules is under works and would be released soon, they said. Earlier this month, the Supreme Court had quashed the RBI's February 12 circular on stressed loan recognition and resolution of large borrowers over Rs 2,000 crore, terming it as "ultra vires". "The model code of conduct exempts RBI's monetary policy. It is unlikely to attract any action if the RBI issues the revised (February 12) circular," sources said. They said the central bank is in very advanced stage and the revised circular should be out before declaration of general elections result. The counting for the ongoing Lok Sabha elections will take place on May 23. The RBI is looking into all the concerns raised by various stakeholders including banks and power sector companies and may look to tweak the circular without diluting it completely so that the momentum towards resolution of stressed assets is not affected, sources said. The February 12 circular had mandated banks to refer an NPA account for insolvency proceedings in case a resolution is not found within 180 days. This was for accounts where the outstanding dues was at least Rs 2,000 crore. Under the RBI norms, an account is classified as a non performing asset (NPA) if it is not serviced for 90 days. Sources said various options are being explored for rejigging the NPA framework. One of the options is giving 30-60 days more time in addition to existing 90 days before initiating resolution process for stressed accounts, they added. While the 90-day period for recognising an account as NPA would remain, the central bank would be looking at providing more leeway for the entities concerned to repay the loans, they said. Sources said that providing additional time for repayment would help in mitigating hardships faced by micro, small and medium enterprises (MSMEs) to some extent. In a report last year, the government had favoured additional 180 days to be provided for resolution of 34 stressed power projects with a view to avoiding potential value erosion of operating plants. The Supreme Court quashed the circular following a petition filed by around 70 stressed companies from the power, shipping and textiles sectors. A parliamentary panel was among the critics of the now impugned circular. "Although the new guidelines have been termed as harmonised and simplified generic framework, yet they are far from being so," the standing committee on energy said in its report tabled in Parliament last year.

**<u>Big Four audit firms barred from practising law, offering legal services</u>**

*Bar Council of Delhi acts on charges of surrogate law practice by auditing MNCs*

Acting on charges of surrogate law practice, the Bar Council of Delhi has directed the Big Four global audit firms — KPMG, PwC, EY and Deloitte — to refrain from providing legal services with immediate effect until further orders. The firms have also been asked to furnish a list of all the advocates who have been engaged by them, in any capacity, in any of their offices at any place. These directions have been passed by the Delhi Bar Council following a complaint filed by Lalit Bhasin, President of the Society of Indian Law Firms, a representative body of over 100 law firms in the country. The matter will be heard next by the Bar Council of Delhi on July 12. The Bar Council's move is a step in the right direction, Bhasin told Business-Line.

**Legal violation**

In 2015, he had complained to the Bar Council — the regulator for the legal profession — that the Big Four firms were resorting to "unauthorised practice of law" (providing legal services) in violation of the Advocates Act. He had complained that these firms were employing law graduates and providing legal advice, besides drafting joint venture and other agreements for clients, without registering themselves with the Bar Council of India. Bhasin's main contention was that the Big Four audit firms were also engaged in law practice, which is not legally permissible in India. There is no justification for accounting and audit firms to enter legal practice and offer non-litigation services, it was submitted. Former CA Institute President Naveen ND Gupta had a different take on the issue and the Delhi Bar Council's directions. "One needs to see whether the Bar Council has the power to pass such directions to CA firms. I feel this is an encroachment into ICAI's (Institute of Chartered Accountants of India) jurisdiction. The Big Four multinational accountancy firms' existence is governed by ICAI regulations and code...as such, why should a CA firm follow the Bar Council's order? Such guidance should come from the ICAI Council," Gupta told Business-Line here on Friday.

**ICAI to blame?**

Aseem Chawla, Managing Partner at law firm ASC Legal, said the decision itself reflects the inability — and, somewhere, the lack of willingness — of the ICAI to regulate the activities of auditing MNCs. "It is time for the leadership of ICAI to realise that it has been ineffective in being able to discharge this solemn function," he said.

**<u>SBI General 'will consider IPO at the right time', says CEO</u>**

SBI General Insurance will consider an initial public offering "at the right time", its Managing Director and CEO Pushan Mahapatra said on Friday, but indicated that there is no definite timeline for it. "The IPO will happen at the right time. There is no decision as of now," he said on the sidelines of an insurance conference organised by FICCI. SBI Life Insurance had listed on the bourses in 2017, and there has been expectation of a similar exercise by the general insurer as well, possibly this fiscal. SBI General Insurance, which started operations in 2010, is a joint venture between State Bank of India and Insurance Australia Group (IAG). There have also been reports that Insurance Australia Group is looking to exit its holding in the general insurer. Mahapatra, however, declined to comment on it. Talking about plans for the current fiscal, Mahapatra said the insurer will continue its focus on home, health, and SME insurance. He also said the insurer is investing heavily in digital technology. "We expect 5 per cent of our sales from online channels in the next three years," he said. For 2018-19, the insurer posted a profit before tax of ₹470 crore, which was 11 per cent higher than the previous fiscal.

*ITEMS COMPILED & EDITED FROM NATIONAL, INTERNATIONAL FINANCIAL DALIES, WEEKLIES, WEBSITES.*

**RBI slaps penalty on Vodafone m-pesa, PhonePe and 3 others**

The RBI has imposed penalty aggregating ₹6.10 crore on five Prepaid Payment Instrument (PPI) issuers – My Mobile Payments, PhonePe, Y-Cash Software Solutions, Vodafone m-pesa, and GI Technology – for non-compliance with regulatory guidelines. Among the five PPI issuers, the highest penalty has been imposed on Vodafone m-pesa (₹3.05 crore). In the case of My Mobile Payments, Phonepe and GI Technology, the RBI slapped a penalty of ₹1 crore each. It has imposed a penalty of ₹5 lakh on Y-Cash Software Solutions. The RBI also imposed a penalty of ₹29,66,959 and ₹10,11,653 on Western Union Financial Services Inc, USA, and MoneyGram Payment Systems Inc, USA, for non-compliance of regulatory guidelines. "These penalties have been imposed in exercise of the powers vested in RBI under the provisions of Section 31 of the Payment and Settlement Systems Act 2007 for compounding of the contraventions," the RBI said.

**Banks may get just a quarter of claims from 12 debt cases**

KOLKATA: Banks would realise just about a quarter of their claims from 12 corporate debt resolution cases in January-March 2019, dashing hopes of higher bad loan recovery in the last quarter of the last fiscal. In the March quarter, the realisation by banks was 24% of their claims, in comparison to 43% overall. The lenders will receive merely 17% of the Rs 29,500 crore dues from Alok Industries, raising doubts over future realisation. "This is a matter of serious concern. This shows that either there are no tangible assets to back the loans or the assets were overvalued," United Bank of India chief executive Ashok Kumar Pradhan said. The overall bad loan recovery through bankruptcy courts has remained dismal in the first two years of the Insolvency and Bankruptcy Code. Banks could realise 43% of the claims in 94 loan default cases that have been resolved after the corporate insolvency resolution process came into effect from December 2016, data from Insolvency & Bankruptcy Board of India showed. However, the extent of recovery has been a concern ever since. JSW Steel offered about Rs 19,300 crore for Bhushan Power & Steel which was saddled with debt of Rs 47,300 crore, while Electrosteel Steels' Rs 13,300-crore debt was resolved at Rs 5,300 crore. About 1,858 corporate debts have been admitted into the National Company Law Tribunals (NCLT) by end of March, 2019. Of these, 152 have been closed on appeal or review or settled, 91 have been withdrawn; 378 have ended in liquidation. Just about 94 cases have been resolved or 13% of the total cases admitted for resolution. The Insolvency and Bankruptcy Board of India said 75% of the companies ending in liquidation (283 out of 378) were earlier with BIFR or defunct with no economic value in most of them. "The 24% does not mean banks had to write off 76% of their claims," explained Vinod Kothari, a senior chartered accountant. In fact, he said, a large part of the claims might have been provided for by way of bad loan provisions over time. Most banks have provided 75-100% for bankruptcy cases and therefore recovery against such cases would add directly to their profitability to the extent of the provision made. "Once the deadwood of the past is cleared the rate may improve," Kothari said.

**Previously unseen Essar trails emerge, the bell tolls faster for Chanda Kochhar**

The first cache of definitive records regarding the probe into former ICICI chief Chanda Kochhar's alleged misdeeds is finally out. An Indian Express story has revealed that the former MD & CEO of ICICI Bank allegedly misled the RBI on a suspicious loan transaction amounting to hundreds of millions of dollars. The matter in question pertains to a 2014 ICICI Bank loan worth $365 million, disbursed to a Mauritius-based holding company of Essar Steel Minnesota LLC. That means the first instance of the banking regulator red-flagging suspicious ICICI loans under Kochhar was as early as July 2014. The RBI had found several irregularities in lending by the bank, the Indian Express story says quoting the probe records. Essar Group is one of the biggest borrowers of ICICI Bank. During the period between the beginning of FY 10 and the end of FY 19, ICICI Bank okayed 71 loans for Essar, the Express story quoted an inside source as saying. Kochhar was part of as many as 35 meetings of the committees that sanctioned these loans. In this particular case, ICICI Bank had approved a rise in Essar Steel Minnesota's project capacity from 4.1 MTPA 7 MTPA (for manufacturing steel pellets).

**A dark trail of ever greening**

The RBI had raised several questions about the approval, casting doubts on the contours of the loan agreement. Under the agreement, ICICI had agreed to extend the commencement time of the project. According to RBI, what ICICI Bank was doing amounted to "ever greening" of loans — it basically was giving out a fresh loan to help the company service another loan taken earlier. On the basis of its findings, the RBI had held that ICICI Bank should classify this specific loan in the "sub-standard asset" category. As per investigations carried out by the Indian Express, the Kochhar-led ICICI fended off RBI's allegations claiming that it had okayed only an increase in project capacity and had not given any extra funds. Probe records, however, proved ICICI's assertion was not true. Papers revealed that the bank did, in June 2014, give out a $365-million foreign currency term loan to Essar Steel Ltd, Mauritius. The loan to the Mauritius firm, according to the minutes of the credit committee meeting of ICICI Bank that approved the loan, was for infusion of funds into Essar Steel Minnesota. The credit committee which okayed the loan — of which Chanda Kochhar was a part — officially recorded that it was for "infusion of funds in Essar Steel Minnesota".

**Intentional misleading**

Kochhar "misled the RBI vide the RBI response by claiming that the bank had not participated in any additional funding required by the change in scope of the Essar Steel Minnesota Project", the records state. It has now been revealed that ICICI under Kochhar continued to keep lending to the group despite a host of serious red flags raised by an external complaint — even after serial negative credit ratings and numerous defaults by the group. The external complaints in question — on which Kochhar took no action — had asked why ICICI was lending to Essar at a time when no other lender was keen on giving it loans. It also asked the bank to conduct a due diligence on the group, to which Kochhar reportedly paid no need. The Indian Express story quoted an ICICI spokesperson as saying that these incidents were from 2011-2016, and that the bank has since taken concrete steps to improve the risk profile of its balance sheet.

**<u>Interest rate for SBI saving a/cs with Rs 1 lakh plus balance to be linked to repo rate from May 1</u>**

In March, the State Bank of India (SBI) announced that it will link interest rates for its savings accounts (with balances over Rs 1 lakh) and short-term loans to the RBI's repo rate. The new rates linked to the external benchmark will come into effect from May 1, i.e., tomorrow. With this, SBI will become the first bank in the country to link deposit accounts and loans of any kind directly to an external benchmark wherein changes in the latter would be auto-transmitted to the former. Interestingly, as per the current repo rate, SBI's savings accounts with over Rs 1 lakh deposits will (from May 1, 2019 ) earn less interest than those with smaller balances in their accounts and also 0.75 percent less than the 4 percent being offered on post office savings account. However, if the repo rate goes above 6.25 percent, then the interest rate for the large SBI savings accounts would be higher than the current 3.5 percent being earned on smaller accounts, as per the external benchmarking formula. So, from tomorrow, interest rates on large savings accounts and on some short-term loans will automatically change as and when RBI changes its repo rate. Here are five things you should know about SBI's new interest rate setting mechanism for its savings accounts and short-term loans.

1) Only savings accounts with deposits above Rs 1 lakh will be linked to the external benchmark. On these deposits, from May 1, SBI will be offering interest rate of 2.75 percent or 275 basis points (bps) below repo rate, according to the bank's website. The repo rate at the moment is 6 percent therefore from tomorrow these savings accounts will earn interest of 3.25 percent per annum. This is not good news for those with deposits above Rs 1 lakh in SBI savings accounts. 2)In March, the bank had said that to insulate small deposit-holders and small borrowers from the movement of external benchmarks, the bank has decided to exempt savings bank account holders with balances up to Rs 1 lakh and borrowers with cash credit accounts and overdraft limits up to Rs 1 lakh from linkage to the repo rate. 3) For other savings account deposits, interest rate will continue to be set by the bank as per current RBI guidelines. This means that savings accounts with balances less than Rs 1 lakh will continue to earn 3.5% interest as per the current rate fixed for these accounts. This interest rate is also subject to change by the bank as per RBI rules but, it will not get reset automatically according to the repo rate movement. 4) At present, interest rate on SBI savings account with deposits up to Rs 1 crore is 3.5 percent. And deposit accounts above Rs 1 crore earn an interest of 4 percent a year. 5) All cash credit accounts and overdrafts with limits above Rs 1 lakh will also be linked to the benchmark policy rate, plus a spread of 2.25 percent. "The risk premiums over and above this floor rate would be based on the risk profile of the borrowers, as is the current practice," states the SBI website. What is interesting to note is that RBI has deferred its plan to replace MCLR with an external benchmark as the basis for fixation of interest rates for retail loans by banks. In its bi-monthly monetary policy meeting in December of last year, the central bank announced all the floating rate personal or retail loans (housing, auto etc.) and micro and small enterprises will be linked to any of the four external benchmarks.

**Lenders take 57% haircut in 94 cases worth Rs 1.75 lakh crore**

MUMBAI: Banks have taken a huge 57 percent haircut in the 94 large accounts worth Rs 1.75 lakh crore which were resolved in FY19, recovering just Rs 75,000 crore or only 43 percent of the admitted claims, finds a report. The numbers assume importance as the bankruptcy law enters the third year this month. As of March, there were 1,143 cases pending at various bankruptcy tribunals, and 32 percent of them are pending for over 270 days. The average resolution timeline for these 94 cases resolved was 324 days as against the stipulated timeline of 270 days. "Only 94 stressed with a total claim of Rs 1,75,000 crore by financial creditors were resolved in FY19 with a recovery of Rs 75,000 crore or 43 percent of the admitted claims under the insolvency process approved by the various national company law tribunals (NCLTs)," say a joint study by Crisil and industry lobby Assocham released Friday. The report said had these 94 companies were liquidated, the recovery would have been just 22 percent which is significantly lower than the recovery rate through normal resolution process. The report further said there are a few big-ticket accounts for which resolution has not been finalised for over 400 days as IBC framework is still a work in progress. According to the study, some of the key issues that need to be addressed for successful implementation of IBC are adherence to timelines, adequate judicial infrastructure, creditor classification and prioritising, among others. To maximise value and stakeholders' interest, the IBC framework for liquidation under a going concern basis needs to be explored further and should be followed in true spirit, the report said.

**PNB, BoI, Union Bank shares fall 5% amid merger buzz**

NEW DELHI: Shares of Punjab National Bank (PNB), Bank of India (BoI) and Union Bank of India declined over 5 per cent each in Tuesday's session amid reports that the government is planning a second round of merger in public sector banks. As per an ET report, the government is soon likely to invite select lenders, including PNB, BoI and Union Bank of India, for discussion on the second round of merger in public sector banks, according to a finance ministry official. In October 2018, the government had proposed the merger of Bank of Baroda, Vijaya Bank and Dena Bank to create the country's third-biggest lender through the alternate mechanism. Both Vijaya and Dena were amalgamated with BoB on April 1, 2019. The report quoted a senior executive with a PSU bank saying that merger is not the antidote for every banking woe. The government should not force mergers only to create too-big-to-fail structures. Shares of Union Bank of India, BoI and PNB closed 5.51 per cent, 4.18 per cent and 3.75 per cent lower, respectively, on BSE.

**ATMs not giving cash a common worry**

MUMBAI: Teller machines not dispensing cash even when bank accounts are debited remains the most common grievance among users of the devices that help bypass human intervention in traditional banking transactions. Bankers say that the problem is common enough because of financial inclusion, and that most cases are resolved satisfactorily. About 16,000 complaints, or 10% of all customer grievances at the banking ombudsman offices in FY18, were registered under the head 'account debited but cash not dispensed at ATM,' data released by the Reserve Bank of India last week showed. Data also showed that debit card and ATM related complaints saw a 50% jump on year. As per the ombudsman scheme of 2008, banks are mandated to give a helpline number in the premise of the ATM. An aggrieved customer should immediately register a complaint either via a call or an email with the issuing bank, say experts. "Generally, the bank identifies such cases when they do their reconciliation process, within a day. In any case, banks have to resolve customer complaints within seven days, according to the RBI mandate," said a private sector banker who did not want to be named. When a bank doesn't resolve the issue within the deadline, customers can register a complaint with RBI at the respective ombudsman office in their zone within 30 days of the failed transaction. The recent increase in deployment of ATMs in rural areas after demonetisation and increased customer awareness are reasons behind the rise in number of complaints, the person cited above said. "The rise in complaints is not indicative as it is in proportion with the increase in ATM networks across the country and the number of complaints filed in the concerned period," said the banker. ATM manufacturers say that while the increase in deployment has been a factor, the primary cause for such grievances are "network and power-related failures", especially in rural ATMs. "What happens in most cases is that due to network issues, the transaction gets timed out but the ATM switch gets triggered, sending a message to your phone," says Mandar Agashe, founder and vice president of Sarvatra Technology, a Pune based ATM technology player. "The next day, when the bank does its reconciliation process, these errors get rectified as the bank's log and transaction data don't match. Customers mostly get their money back within a day. But it is always advisable to immediately log a complaint." "We have recorded cases where the modus-operandi of stealing from ATMs involves forceful switching off of ATM machines the moment before it dispenses cash. The machines now are programmed to be shielded from these types of crimes," said Manohar Bhoi, vice president of technology, Electronic Payments and Services.

**Tata Consultancy Services faces new law suit over 'trade secret theft'**

BENGALURU: Computer Sciences Corp. (CSC) has filed a lawsuit against Tata Consultancy Services, alleging that the Indian IT bellwether is stealing its trade secrets to build an insurance platform, following a $2-billion deal that TCS won from US insurer TransAmerica last year. This is the second such suit against TCS, after the Indian IT major lost a similar case to Epic Systems, setting it back $420 million in penalties. TCS is currently appealing that in a higher court. TCS is "improperly accessing" its codes, the US-based CSC said in its lawsuit filed last week in Texas, seeking punitive damages. ET has seen a copy of the lawsuit. "Our legal team is reviewing the allegations and will respond appropriately. TCS will strongly defend its position before the court. As this is a pending legal matter, TCS would not like to comment further at this time," a TCS spokesperson said in response to a detailed questionnaire sent by ET. CSC, whose parent is the NYSE-listed DXC Technology, had licensed its insurance products Vantage and Cyber-Life to Money Services Inc (MSI), which is owned by TransAmerica. MSI was using the CSC software to administer and process TransAmerica's insurance and annuity policies, the suit said. TCS, which took on board 2,200 TransAmerica employees as part of the deal, planned to use its BaNCS platform to administer the policies "TCS now employs not only thousands of people who know how to use CSC software, including Vantage and CyberLife, but TCS also now employs former MSI employees with knowledge of - and access to - the CSC source code hosted on the MSI servers," CSC said. "TCS is using this access to and knowledge of the CSC source code, software documentation, and other proprietary and confidential CSC information to develop TCS' BaNCS for the U.S." "TCS BaNCS is a comprehensive product with several successful implementations globally," the IT giant's spokesperson said. TCS uses the BaNCS platform to administer insurance policies in the UK. The lawsuit also alleges that a TCS employee copied and pasted part of CSC's insurance source code into an email and sent it to colleagues. "Over the course of three weeks, TCS employees accessed and analyzed both the proprietary CSC software documentation and the Vantage source code to try to determine the method and process by which Vantage calculates this particular rate of return," CSC said. CSC discovered that TCS employees were looking into its code when a CSC employee, who has a TransAmerica email address, received a copy of the Indian software major' mails, possibly by accident, CSC said in a separate court filing seeking a temporary restraining order. CSC said it had no way of knowing if TCS was looking at other parts of its code. "These cases take a long time. The Epic case was filed in 2014. But it is a concern if it will affect more deals in the insurance sector in the US," an analyst with a Mumbai-brokerage said. CSC's suit also cites the Epic verdict against TCS. CSC is seeking permanent injunction to prevent TCS and its employees from using CSC's source code to develop the BaNCS platform. TCS is based in Mumbai, where the capital markets remained shut Monday on account of general elections.

**<u>Lenders to Anil Ambani's RCom face steep haircut</u>**

NEW DELHI: Lenders to Anil Ambani's Reliance Communications (RCom), Reliance Telecom and Reliance Infratel are finalising plans to recover their loans of Rs 45,000 crore to the beleaguered companies, although they concede that it will be a tough task given that significant value has been eroded. Banks have decided to shortlist a resolution professional from a field of 15 players after NCLAT allowed resumption of insolvency resolution action against RCom. In addition, other issues on loans related to the flamboyant businessman's failed telecom ventures are expected to be taken up by banks, including some of the Chinese lenders who have an exposure. The junior Ambani's businesses are under severe financial distress with lenders earlier referring Reliance Naval too for action under the Insolvency & Bankruptcy Code. In fact, a failed attempt by SBI to bail out RCom has delayed the action, which many lenders believe further impaired the asset, leaving little on the table for a potential buyer. The intense competition between Reliance Jio, Airtel and Vodafone Idea has already made the sector unviable for more players, given that revenues are falling with realisations dropping. "Even if we find a buyer, we will have to take a huge haircut," said an executive with a public sector bank. The company has a fibre network, towers and spectrum and its attempts to sell assets to realise value has yielded no results. The insolvency plea had been moved by supplier Ericsson for unpaid dues, which had been stayed by NCLAT. Subsequently, the Swedish equipment vendor moved the Supreme Court as RCom went back on its promise on payment. Anil Ambani had to be bailed out by his elder brother and Reliance Industries chairman Mukesh Ambani to make the payment. But with the insolvency proceedings commencing, lenders sense an opportunity to realise some value from the remaining assets. Banks will have the first right over the value generated through the sale. The law provides a 180-day window for the resolution process to go through, which can be extended by another 90 days. In case the process fails to yield a desired resolution plan, the company will be forced to go into liquidation.

# MUST READ ITEM FOR THIS WEEK

## Why Do Banking IT Failures Happen, and What Can We Do About Them?

*By* **Toine van Beusekom**, *Head of Payments Architecture, Icon Solutions*

In 2018, MPs announced a planned inquiry into several major IT failures that plagued banks with various subsequent issues within their services. A Treasury Select Committee will look at how financial services companies deal with service disruption or stop it from happening altogether. The government's announcement follows several major system failures, which saw significant pick-up, both in traditional and social media, leaving many unable to use their debit cards, or even make payments. But what is the core underlining issue? As digital banks look to go toe-to-toe with the new fintech start-ups, they're overlooking the resilience required in order to meet the threats of operating in the financial market – and ultimately it is affecting the consumer. With longstanding banks racing to digitalise, the resilience they've been able to build-up with legacy systems that remained unchanged for years is dissipating. This resilience will need to be rebuilt for banks to work in the age of Instant Payments and Open Banking.

**The Failures of the Legacy systems**

Banking isn't the only sector which encounters major IT outages observed so publicly in the media. In recent years, we've seen the likes of Facebook or even Google Plus struggling with technology and/or security issues that are widely publicised. Banks shouldn't be singled out by any means, larger companies across the board encounter issues when trying to modernise, but banks are the ones looking after everyone's money, meaning they must be -held to higher standards on resiliency than others.

Looking at the route of the problem you'll find technical debt, this is where inefficient systems and infrastructure issues build-up over a period of years. Legacy systems are created by features being added rather than replaced, and what you end up with is payment systems that might be decades old. These long outdated and ill-equipped systems are unable to work in the age of Open Banking.

**The route of the problems:**

- Payment processing systems were created for batch-based processing, the reason why payments would take 3-5 days to go through. Bring in real-time payments and you have an over-strained architecture which can't keep up with the modern demand
- When payments were settled daily it meant operators could manually intervene, this isn't really an option given that payments are now almost totally instant, in fact attempting to intervene can result in failures itself
- Platforms are overthrowing legacy systems, new emerging platforms are becoming better at doing certain tasks than larger banks, even if a bank brings on new technology, it isn't as capable as a new platform that has been created to meet a certain issue head-on

When you change the core architecture of a legacy payment hub, its systems are more likely to be compromised as they are not built from the ground up to meet the new function, having a clear impact on the existing functions served by the system.

**How to mitigate IT failure:**

So how can we protect against IT failures? Banks need to adopt more data-driven service-based architectures for payments built on Open Source technology. But beyond that, they must invest in skills for their staff, so they are trained and future-proofed, not just playing catch-up. This isn't an easy task. Banks must embrace the same technologies as big tech companies and fintech upstarts for it to be a fair game, for example:

- When payment systems are offered in the cloud, they can provide a high degree of flexibility to cope with spikes of high payment volumes. This approach helps payments to run smoother than on outdated systems.
- Developing for behaviour through automated tests is one way to plan and mitigate unforeseen service issues, helping to combat the problem in the first place rather than simply building defences for when an issue does happen.

Banks can be susceptible to service issues, given the sheer volume of payments they receive and the importance of their industry on the rest of society. Nevertheless, one fault is all it takes to have a knock-on effect spreading to the rest of the legacy system. The longer they wait to overhaul this architecture, the bigger the potential failure and the greater the likelihood of being overtaken by a nimbler newcomer. Amongst the challengers and fintech's we have the banks that are going through a major shift. Last year, Lloyds announced it will be investing over £3bn into bolstering its digital capabilities, including an £11m investment in a new core banking provider. But banks must commit more than money, they must be prepared to overturn their legacy architecture and build a modern system, one that is designed to meet the threats and challenges of Instant Payments and Opening Banking

# VIEW OF THE WEEK

**Uday Kotak on challenges in financial sector, liquidity stress, IL&FS and more**

Kotak Mahindra Bank MD & CEO Uday Kotak spoke to reporters on issues ranging from the financial markets to the IL&FS. Following are some edited excerpts:

**On the challenges in the financial sector**

We're in the midst of one of the most significant challenges in financial sector. The next few months will be crucial in how the sector shapes up. For many years we have discussed in detail the challenges in real sector (manufacturing and industries) impacting the financial sector. However, this time it is the challenges in the financial sector and the impact of that to the real sector and the broader economy Next six months are going to be very crucial in how India handles the challenges in financial sector. A very strong approach from the point of view of practitioners and policy is required to guide the sector to safer waters from what I call the more turbulent world which is currently there in the world of financial sector.

**On IL&FS and the liquidity crisis**

We have to look at financial sector in broader perspective. The sector was a key beneficiary of demonetisation as very significant liquidity got pumped into the system. This flush of liquidity first came in banks and then into mutual funds and insurance. From these channels the liquidity went into NBFCs and HFCs. Now we are seeing a significant increase in currency in circulation over the last few quarters. We're also seeing the overall liquidity conditions being reasonably tight. The combination of these factors have taken out 'easy money' that was sloshing around in the broader financial sector and some of the easy money went into centres like land and real estate which are inevitably at core as an underlying asset, illiquid. When you see liquidity moving out we find challenges immediately coming if the underlying assets are illiquid. As a result, we have found this a significant challenge, as the liquidity reduces from the financial sector across the board in the financial service industry. We have had a long non-performing asset cycle which has played out in India. It started post 2011 and the real economy challenges including infrastructure and real estate has played out. What happened at IL&FS in August September last year was the first signal that the challenges in financial sector is likely to be having, going forward. Now we are seeing that more closely as liquidity situation grows tighter. As wholesale liabilities from balance sheets reduces, it produces significant pressure on asset side of the balance sheet and we're seeing that happen. This is a classic case of chain breaking at the weakest link. When liquidity gets tighter we start seeing pressure and that is the time the quality of the balance sheet becomes very crucial. True test of financial health of a company is its balance sheet. The media and investors focus on P & L statements when the times are good. But a strong balance sheet manifests itself when the times are more turbulent.

**On NBFC situation now**

Back in late 90s, there was a proliferation of NBFCs. There was more than 4000 NBFCs in late 90s and post the Asian crisis, we saw a large mortality of these companies. Our experience of that time has been important in developing sustainability and pure prudence on risk based assessments. We are beginning to see in the NBFC space now, as more and more players come into the market, there will be few players who do well but there are a lot of players whose fundamental underwriting or risk-management skills won't be as sharp and they will face challenges. There are three ways of solving this: One is by inviting equity investments, the second through consolidations and combinations and third is mortality. I would like the problem to be solved by equity and combinations, and very few mortalities. But solution lies in one of the points or the combinations of them.

**On the auto sector**

We are looking at automobile sector very closely. The passenger car demand has slowed down and a very large part of Indian business linked with auto sector. The sector has significant impact on both sides. The apparent reason seems to be the availability of finances. The second question that needs to be asked is if something structural is changing. Is there a fundamental change in consumer behaviour happening with the rise of Ola and Uber? It's a question that needs to be asked. We as an economy need to be ready for this. It's too early to speculate anything because the demand for the size of the population is still huge. To what extent are the consumers saying we don't need a second car. If that is indeed the case, we need to be ready with a new alternative.

**On non-performing assets**

We haven't seen any major blowout post IL&FS and between practitioners and policy-makers should monitor the space very carefully. What we should try and avoid that the financial sector challenges don't impact the real sector. We do believe from that perspective, even though it's early to comment, that a seven per cent GDP growth is feasible. Diversification of exposure has been a fundamental philosophy that we have adhered. Another thing we keep asking ourselves is if there is something that is changing in consumer trends. What is the behavioural change. We are spending time gathering data that may indicate to the consumer patterns in the future and how we can design financial services accordingly.

# INTERVIEW OF THE WEEK

**Visa committed to RBI's new data localisation rules: President Ryan McInerney**

As India embarked on a journey towards digitisation of payments, mobile wallets and Unified Payments Interface might have hogged the limelight, but the good old plastic card continues to be one of the most formidable payment instruments in the country. Visa, which is one of the largest card schemes globally, has been bringing in innovation to help India in its cashless journey. In an interaction with ET, its global President Ryan McInerney speaks about how Visa is not only adhering to the data localisation diktat of the Reserve Bank of India, but is also building products for global markets in Bengaluru. To support its ambitious plans for India, Visa has scaled up its staff strength to more than 1,300 now from less than 50 in 2015. Besides its own corporate plans, McInerney is also excited at the fintech boom in India and is keeping all options on acquisitions, investments and partnerships open for disruptive players in this space.

**Edited excerpts:**

**Demonetisation gave a push to digitisation but now cash has crept back into the economy. How challenging is the fight against cash turning out to be?**

Battling cash is a huge challenge and we must fight it through multiple modes: first, expand acceptance infrastructure: there is still a huge retail market where you cannot pay digitally. Second, improve user experience of paying digitally and 'contactless' could bring that. Third is to educate consumers. We had deployed our entire global marketing team for India to create a series of campaigns focussed on customer education post demonetisation.

**What is the stand of Visa on data localisation?**

We are extremely committed to the new regulations that the RBI has put in place. We already have a team here in Bengaluru comprising some of the best Indian engineers. I think there is a combination of multiple things that are happening in India meant to create a safer and better environment for online commerce and we are fully committed to be a part of it.

**There seemed to be initial resistance to the move from the RBI from global companies. Why so?**

We have always been supportive of the moves from the RBI. We have engaged with them in every step. Since our commitment to India is long term, measured in decades, we want to work in a way the RBI feels is the right way to work.

**Facebook chief executive Mark Zuckerberg said he was against data localisation in countries with weak rule of law. Is there any safety issue for storing data in India?**

We have built an architecture which we feel is very safe for our new payments processing platform in India and we feel confident about how it is going to work.

**You have created a large workforce in India. Are you creating new products here for global markets?**

Yes. One of the challenges of two-factor authentication is it brings friction in the payments experience. Our product teams and engineers have worked with some of our clients to come up with a new one-click checkout product for ecommerce payments where the consumer needs to tap a button to pay in safe, secure and RBI-compliant means. We will first roll it out to our Indian issuers and merchants here and then export it around the world. I think going forward, this trend is going to catch up even more.

**How big is your staff strength here?**

In India we have got around 1,300 people across locations — Mumbai, Bengaluru and others — which in 2015 was around 40 to 50 people and this is further growing. Here we have engineers, product leaders, client leaders who are all helping us create world-class products and expand business as well.

**You have been operating in India for many years...do you see in recent times the government is more inclined towards NPCI?**

Unlike China, where we are not even allowed to play in their domestic market, India offers a level playing field. Whenever we have been involved with the government here, we have been engaged in discussions around solving problems. There have been some ups and downs but at the macro level we have been aligned with the vision of the government. At the micro level, issues happen sometimes like the Jan Dhan case when RuPay cards were mandated to participate in the financial inclusion game. We would have loved to participate there as well but that did not happen. Wherever we have been allowed, we have participated. We think competition is good for everyone and encourages innovation.

**You have invested in Billdesk; are you looking at more such opportunities here?**

If there are more opportunities to invest in companies in India that we think can be helpful for the ecosystem in terms of driving acceptance, digitisation of cash, innovation, we are very excited about those chances. We are actively engaged with the most innovative fintech startups in the country and one of the engagements is by making investments and acquisitions and we are actively considering those opportunities in India. After our Billdesk investments, further investments, acquisitions, partnering all are on the table.

**Are you ready with NCMC cards for India?**

NCMC was one of the fastest builds that we had done and that was also a Make in India build. Today, we are ready with the product and will roll it out through our issuers as well. I think one of the major use cases for digital payments is transit and it is an important use case for driving contactless. In the UK now, well over 50% of the Visa transactions are contactless.

# INTERVIEW II

**Prem Watsa's love affair: BlackBerry to bank**

Bengaluru: Prem Watsa, the Canadian billionaire of Indian origin, has floated Fairfax Financial Holdings, which has $1.5 billion invested in India. This includes Bangalore International Airport ($653 million), Sanmar Chemicals ($300 million), IIFL Holdings ($276 million) and National Collateral Management Services ($174 million). Fairfax has also invested over Rs 400 crore in Digit Insurance and is a majority investor in Thomas Cook. In an interview with TOI, he speaks on why he is bullish on India.

**How much have you planned to invest in India?**

Fairfax has around $40 billion of investments and we have around $5 billion in India, of which $3 billion is ours and the rest is raised from others. In America, regulations do not allow a lot of money to be invested in India. So, we floated Fairfax India as a separate publicly listed company, where we raised a billion and a half. We expect Fairfax India will grow substantially over time.

**As a large investor, what do you expect from the next government that comes in?**

Hopefully, continuing to be business-friendly and encouraging foreign investment. Also, further improve the ease of doing business and bring down the global ranking below 50. If the economy of India does well, everyone prospers and socio-economic differences begin to disappear. That's what we have seen in North America — the American dream, where anyone from any religion and economic status can build a business and prosper.

**What made you exit ICICI Lombard?**

ICICI Lombard is a terrific partnership and it continues to be a wonderful relationship. We always wanted a higher stake in property and casualty business. A couple of years ago, when the government said we could own up to 49%, we wanted to increase our share from 26% and we spoke to ICICI Bank. They said they did not want to go below 55% and they also wanted to go public. This meant we would have reduced to 20% after 25% dilution in an IPO. So, I went back and said, "I understand you want to keep 55% — 20% for us is too low.

**Why don't we go down to 10% in ICICI Lombard and then we can start Digit with 45% stake?"**

In Digit, we have an option to increase our ownership in the future if the government allows increases in FDI.

**Do you intend to hold on to the company? And will it continue to use the Lombard brand?**

Our company in Canada goes by the name Northbridge. Lombard was one of the Northbridge companies. During the IPO, we had to take a decision and we decided to let them keep Lombard. All of our insurance investments going forward in India will be in Digit.

**What made you choose Digit?**

India is a phenomenal growth opportunity, insurance is under-penetrated. You have all the digital economy coming in. You have an economy that is growing at 7% and can go up to 10%. For a market of India's size, 27-28 insurance companies is very low. Canada, which is a smaller market, has 150 companies. Kamesh (Digit founder-chairman Kamesh Goyal) built Bajaj Allianz from scratch. If you look at his track record, it was the best company in terms of underwriting profits. A business ultimately has to make profits. You can't run a business losing money for the long term — many high-flying digital businesses do not generate underlying free cash flow and must rely on the whims of the market to continually get capital. Kamesh's track record is a good mix of underwriting profit and aggressively growing a company. His experience is not only in India but worldwide. We want to take the Digit technology platform to Brazil, the US and other parts of the world and we are already working with Kamesh. We want to take this digital direct technology to other places over time. Why do you want to set up a reinsurance company with Digit?If the non-life business grows, so will reinsurance. A reinsurance company incorporated locally has an advantage over a branch of a multinational as it gets to see all the business. We already have a holding company, which owns the non-life business where we are partners. We can use the same holding company to promote a reinsurance business. You have made varied investments, from airports to warehouses... I am bullish on India. India's population, which was previously considered by the world to be a negative, is a big positive. We have Bangalore International Airport (BIAL) — they are expanding 32 to 45 million passengers with a second terminal and a second runway in the works. Eventually, there will be a third terminal with the third runway and there will be 100 million passengers. Today, Atlanta, one of the biggest North American airports, handles 100 million. BIAL has also got 500 acres for development, which will be part of Aerocity. We hold 70% in Thomas Cook, which is taking Indians all over the world. So Madhavan Menon (Thomas Cook CEO) has a worldwide travel business that began from here. Catholic Syrian bank (CSB) — we are going to expand outside Kerala. Over time, it is going to be a very good bank. We have C V R Rajendran. We have Paresh Sukthankar as an adviser for CSB. India needs banking. The bank was hoping to list on the stock exchange by the end of the year, but we are hoping to get an extension. We have to take it public and reduce our stake over a period of time. But for the moment, we are 51%. In India, grains are largely stored in gunny bags because there is no testing facility to store them in silos, so we bought the warehousing company National Collateral Management Services.

**You acquired BlackBerry globally. Was that an emotional decision?**

If you look at it, John Chen (BlackBerry CEO) has got a billion-dollar software company. Think of the three big trends — first, everything went on the internet, then everything going into the smartphone, and the third is everything getting digitised through the internet of things, billions of connected devices above and beyond smartphones. But they never thought about cyber security for the digitised world for all of these many interconnected devices. He (Chen) has bought a company called Cylance, which is the foremost in cybersecurity. Even after buying that for $1.4 billion, he has got a billion dollars of cash. He is out of the manufacturing, is in only enterprise SAS software and now he has got cybersecurity. We have not made any significant money on it, but in the meantime we are clipping coupons on our bonds. I am betting that with Chen running it, it is going to do well.

# FUNDAMENTAL CHANGES IN LENDING

## The changing face of lending

**There are fundamental changes taking place in the lending arena. IBS Journal spoke to Encore Theme Technologies managing director and CEO R K Kanthimathinathan to get some insights from one of the most dynamic new players in the market.**

Bill Boyle, Senior Editor

In the corporate lending space, the big topic in the market today is Supply Chain Finance lending; this is lending where we are talking about blockchain as a useful technology in the supply chain finance space. "The primary party we call the 'anchor' party," says Encore Theme Technologies' managing director and CEO R K Kanthimathinathan. "They have their suppliers and they have the banks, who are the suppliers of the credit facilities to the anchor party. They fund the invoicing once the purchase order is released from the anchor party. They fund the manufacturing sub-contractors on the side of Supply Chain Finance. "The other side of the Supply Chain Finance is the dealer finance, in which the anchor party would give their guarantee to the dealer finance. The most important thing is the digital platform because the financing is done at the invoicing level or at a purchase order level as the purchase order gets automatically uploaded into the digital platform. So is the invoice along with the delivery note. It gets updated and matched along with the purchase, so this becomes a very quick process for all parties to complete the lending cycle. This is without any intervention – we are talking about straight-through processing." Most banks, especially for the supply chain – where they talk about the blockchain use – were doing tier one lending to the anchor parties.

"Now, the banks have started lending to the sub-contractor's sub-contractor, for example, take a car manufacturer as an example, "says Kanthimathinathan. "So a car manufacturer in India has given a sub-contract to a diesel tank manufacturer. In turn, the diesel tank manufacturer has awarded another sub-contract for the nozzle manufacturing for the diesel – that is a tier two award. At the moment, all these banks are funding the tier one because there is a clear connectivity established between the anchor party and the tier one because they want to protect the tiered pricing visible to the tier one. Therefore, that whole supply chain was not completed because of all these restrictions in terms of visibility of data and access to data. Now, blockchain can prove the veracity of the transactions – in fact, we have done a PoC of the blockchain in this lending model. "We are able to do this multi-tier lending in which the data is secured and redundancy of the data is proven but also access to the data is limited to the tier one vendors when it comes to the values and data is not available to the anchor party but is for the banking side, so that the whole chain gets completed. Therefore, the advent of this digital lending platform in the corporate side is giving a world of opportunity to the supply chain finance side and the real impact of the lending is coming to place – it is straight-through processing for the anchor parties. The correct facility is being indirectly utilised by the whole financial supply chain. From the car dealer side, based on the demand supply, a complete Supply Chain Finance is created and the visibility of the manufacture inventory available for the dealer side is present to the end user. That is from the dealer side to the retail side of the market; to the end users the sale of the car is completely tracked because the complete demand visibility is there and they are able to leverage the complete credit facility through the digital lending platform."

Kanthimathinathan continues: "The end-to-end visibility is given more comfort for the credit feasibility study at each of these stages in the lending cycle. And also, the bank is able to leverage the whole cycle starting from the retail side until the last mile of the sub-contractor who is manufacturing it to the tier one contractor and giving it to the assembly line. The complete gamut of the transaction is covered in a single program on an online STP-based lending platform. This is what the power of a lending platform can provide today." The fact is that at every stage people are able to use the same program. In India, it is getting extended to another level. The Reserve Bank of India was given a special DSC license for the invoicing platform where any bank can get into the platform of this particular NBC unit, and they can offer their credit facility for the other invoice level for a specific program. At the invoice level, five major banks can bid for the same invoice to extend the credit facility to that particular supplier to the anchor party without a digital lending platform.

"This was never possible before and is only now possible because of the digital learning platform today," says Kanthimathinathan. "And because of the technology that is available in the market today. And also if you look at our platform, we have ensured that our editing interface – in which we interface with major ERP providers such as Oracle SAP and also the smaller ones such as Tally, which is very famous in India – is integrated with those ARPs directly. Therefore, the purchase orders created in the area system get automatically uploaded into the platform as well as the invoice; the release notes get automatically interfaced and uploaded into the digital lending platform. Therefore, this makes us more robust and the facility is available for the end user within a matter of a few minutes.

As long as it gets validated across each of these cycles – since it's almost an automated process across the end-to-end Supply Chain Finance system – it comes back to the lending platform at the corporate side where the digital lending platform is being utilised both by the banks and by the financial institutions.” Kanthimathinathan says: “Supply Chain Finance is also taking a good shape with a good interface to the Swift services across the cross borders. This is happening in the lending platform in India, Middle East and Africa where we are operating predominantly. And I see this market growing in the corporate lending space, especially backed by a good workflow and document management system. It is a strong system that can do bulk uploads of purchase orders or invoices. Integration with its in-house ERP systems is present; the platform is robust enough to handle these things. And it ensures that online corporate lending for Supply Chain Finance is instant. Everybody is into this particular space. It comes to the financial institutions more and everyone is looking at a robust platform. And we believe that banks are moving into this area. Already, we have more than six Supply Chain Finance fees, for which we have auto switcher; four of them are live customers today. And they are using the system very much. As I said, the blockchain technology getting implemented will ensure the multi-tears supply chain financing which is not predominantly available today in the market because of the access and visibility to the data will also be available because of this blockchain technology. This is what we are seeing in the corporate side of it.

“We are very much vertical focused; we are not calling ourselves a lending platform company, we are calling our software a Supply Chain Finance vertical. And when we are in the supply chain finance itself, we have multiple sub-verticals; that is how we work in the auto industry, the pharma industry, and the white goods industry. “With each of these areas, the whole supply chain workflow, and the rules of the games are different when it comes to the credit financing. Therefore, we are completely vertical focus. And that is what we believe is our differentiator in the market. We don’t just talk lending; we talk specifics.” Kanthimathinathan sees his business expanding. “We have two markets into which we want to expand. We have tested the waters in Africa. We have looked at the market in Nigeria and we are also looking at expanding in the Far East, especially markets like Vietnam, Cambodia and Indonesia. These are all the areas that we are looking at expanding into. We want to conquer one region after other. We are proud that being an early startup for the last three years into the lending space, we are expanding well. We feel that the next two years we will be able to cover these regions then move on.”

# INTERESTING TO KNOW THIS WEEK

## Customer Loyalty: Still the Key To Success in the Story of Banking Disruption

*By* **Alison Wilkes***, Head of Payments, FIS*

It’s now pretty much universally acknowledged that the UK retail banking market is being disrupted by new, digital-first competitors – the so-called ‘direct’ banks. The narrative is that these agile upstarts are stealing customers away from incumbents by offering compelling new services and unprecedented levels of convenience. It’s a great story and one that makes complete sense in a world where industry after industry, sector after sector, is being disrupted by digital. But is it really happening on the scale suggested?

According to this year’s FIS Performance Against Customer Expectations (PACE) study the answer is both ‘yes’ and ‘no’. Let’s look at the ‘yes’ part first.

**The rise of the challengers…**

There can be little doubt that direct banks are gaining prominence in the UK. Market demand is clearly in their favour, with 71% of all banking interactions now digital or online. Mobile in particular is in demand: 59% of banked UK consumers have used mobile apps to access financial services. Millennials are particularly demanding in the regard, with 40% choosing a primary bank with a mobile banking app. And as these market entrants become a little more established, they're clearly delivering the experiences their customers demand: a whopping 88% of direct bank customers say they're satisfied with their provider (compared to 70% of customers of one of the top 50 global incumbents). The key question to ask here is whether this level of customer satisfaction is a game-changer? Is it enough to tip the scales in favour of direct banks? With 45% of consumers citing referrals as the reason they chose their primary financial institution it's clearly going to play a role, but is it enough for incumbents to sweat over?

This is where things become a little more complicated.

**…the resilience of the incumbents**

The fact is, that whilst the new, branch free, digital challengers offer innovative solutions which are picking up new customers, gaining prominence and prestige, the established banks still have something on their side. Loyalty. According to our research, people tend to stay loyal to their established primary bank for a very long time indeed – even for a lifetime. Over three quarters of the people we spoke to still have a global top 50 bank (i.e. an incumbent) as their provider. What's more, most of these people have been with their primary bank for more than ten years. This is the sort of customer loyalty marketers in most other industries salivate over. Significantly, this loyalty isn't an 'age thing'. Millennials are every bit as 'sticky' as their elders: in both cohorts 72% of the people we spoke to said they were extremely or very satisfied with their bank. Indeed, the overall switching rate between primary financial providers was only 5% – this compares to 18% in the electricity sector. However – and this is a big 'however' – where we do see customers switch providers it's the incumbents that are losing out. Fully 72% of the people we surveyed who had switched providers had done so from a global top 50 provider. This compares to just 7% churn at direct banks. The main reasons cited by customers for their change of provider were the monetary benefits – such as better deals, low fees, cash back offers, etc. – as well as, of course, being unhappy with their service.

**Disruption in the slow lane**

So, what can we infer from these figures? For me, it shows that disruption is happening in the retail banking sector, but at a much slower pace than in other industries. This means that there's still all to play for. Whether incumbent or direct bank, the slow pace of change gives you time to make the right strategies and plays to win customers over. It's worth the effort, because as we now know: once you win them, they'll stay with you forever. From the perspective of incumbent banks, they now see that they must evolve new customer experiences to (at the very least) keep pace with the innovations coming from direct bank competitors. Customers say it themselves: 64% state that the availability of frictionless and easy customer experiences is key when choosing a financial service provider. Here, banks need not go it alone. Indeed, the proliferation of Open Banking services and API-based models offer incumbents a new and effective way to create secure and innovative customer experiences: by combining the innovative flair of FinTechs with their scale and access to customer data. We know that customers are beginning to adopt these services: 13% of the people we spoke said they are using at least one FinTech service. Banks can provide the customer base and resources to bring these services to a much wider market and 'wow' their customers in the process.

*ITEMS COMPILED & EDITED FROM NATIONAL, INTERNATIONAL FINANCIAL DALIES, WEEKLIES, WEBSITES.*

**A matter of trust**

Of course, opening your bank to new partners and innovating new services may not always go hand in hand with building trust. If a partners' system leads to a data breach, for example, its likely the incumbent bank's brand would be associated, and damaged, to one degree or another. Yet it's a balancing act that must be achieved: banks can't afford to go it alone, but nor can they afford to lose the trust of their customers. There's also a benefit to getting the trust aspect right: it encourages each customer to engage more fully with the bank. According to our research, people who believe their banks are trustworthy have more accounts and products with their primary financial institution, such as current accounts, debit cards, credit cards, etc.

I believe that banks that can open up to new FinTech partners to co-create innovative customer-centric services will be able to attract new customers. However, the only banks that will be able to maintain these customers and make them truly loyal will be those that embed transaction security, fraud prevention, and data protection into their partner ecosystems. Significantly, it's exactly these areas the people we spoke to scored lowest in terms of satisfaction. This whole area around trust is therefore ripe for exploitation by banks as they look to differentiate and take on the new market entrants.

**Everything will change – but quietly**

There's never been a more exciting time to be a banking customer. We have more choice than ever, from traditional banking services to direct banks to discreet services from FinTech innovators. But the rapid disruption of business models seen elsewhere is happening at a slower pace in banking. Customer loyalty is strong and incumbent banks are taking up the opportunities to leverage industry partnerships to take on the market entrants. Make no mistake: what we're seeing is a revolution, but it is a quiet one. We won't see the switching frenzy we've seen in the UK utilities market, instead it's likely change will take place across the industry. What will come about is not a question of whether old banks will lose out to newcomers so much as how new partnerships will come about to transform the operations and business models of all players. For customers, the news couldn't be better: these changes will result in ever-more convenient and secure services that center more directly on their needs. Welcome to banking's new golden age.

# INTERNATIONAL NEWS THIS WEEK

**NYMBUS to launch Pacific National Bank's new digital-only bank**

**David Mitchell, President of NYMBUS**

Revenue and technology solutions company, NYMBUS, has announced that its NYMBUS SmartLaunch product has been selected by Pacific National Bank (PNB) in a bid to outsource its new digital-only bank's technology infrastructure and operations. The new digital bank targets the young professionals of Florida and will facilitate seamless online and mobile banking experience to the same. "While the business benefits to innovate with a digital-only bank are clear, we needed a strategy to quickly build and operate the platform while staying fully committed to our established and loyal customer base," said Carlos Fernandez-Guzman, CEO at Pacific National Bank. "In less than 90 days, and without disruption or cost to our existing bank infrastructure, SmartLaunch will provide all of the necessary technology, resources and digital marketing support to ensure our digital bank gets maximum exposure to reach and acquire a new audience of tech-savvy young professionals." According to the supplier, NYMBUS SmartLaunch will enable PNB to pursue new digital customers and deposit growth. It aims to facilitate the new digital bank with an advanced onboarding system, internet banking and mobile banking presence. NYMBUS SmartLaunch is a Banking-as-a-service that aims to outsource the bank's operations and eliminate the need to hire new resources by financial institutions, thereby providing them with a competitive digital-only bank experience. SmartLaunch is built on NYMBUS'digital-first SmartCore platform. "SmartLaunch levels the playing field for banks and credit unions of all sizes to immediately innovate and compete," said David Mitchell, President of NYMBUS. "We're excited to add PNB to our list of partners, allowing them to focus on their core business while NYMBUS handles the entire back-office, operations and world-class digital marketing support to get its new digital-only bank up and running quickly." Recently, MOXY Bank and Inspire Federal Credit Union selected NYMBUS to transform their product and service offerings.

## Cryptocurrency adoption accelerates in Europe- says Luno

**Marcus Swanepoel, CEO and Co-Founder of Luno**

Global cryptocurrency company Luno, recently released research commissioned by them showcasing that one in every five individuals in the United Kingdom (about 20% of the population) now owns cryptocurrency. Europe has also seen an increase in ownership by 5% (to 24.75%) from Q1 to Q2. Commenting on the increased uptake of cryptocurrency, Marcus Swanepoel, CEO and Co-Founder of Luno, spoke about the volatility amongst investors and business while dealing with Bitcoin and Ethereum. He went on to say that the uncertainty over global trade wars and Brexit has pushed individuals towards cryptocurrency as an alternative in order to reduce exposure. Adoption significantly increased, according to data collected in March 2019, as Europeans moved some of their funds away from the Euro and Sterling into digital currencies. These were used for managing payments (22.5%), shopping online (31.25%) or as part of an investment portfolio (58.25%). In the UK, 67% of buyers bought crypto as an investment, a significant increase in the Q1 survey of 55%. "At Luno we can also see increased confidence across Europe amongst potential crypto investors as France pushes the European Union to adopt a regulatory framework on cryptocurrencies similar to the guidance they have implemented at a national level. Even with this 'Brexit' effect, Europe is still a long way behind other countries in adopting Bitcoin, Ethereum and other coins", added Swanepoel. Following the impetus received via France, the European Commission launched a feasibility study on how to regulate the cryptocurrency market, even with the indeterminate status of the legislation. When questioned, majority of European cryptocurrency holders said they acquired the digital assets merely for investment purposes, Q2 saw a great increase in individuals in Europe using cryptocurrency for online shopping with France dominating the adoption with a great increase from Q1 (26%) to 35% in Q2. Over half of individuals in Italy (66%) 37% in the UK and 40% in France, said they would like to use cryptocurrencies to pay for things in stores and online. Swanepoel concluded by demarking the usefulness of cryptocurrency in times of volatility as a safe alternative for investment while being secure, easy and efficient as a payment option.

## Intercontinental Exchange to acquire Simplifile for driving digital mortgage production

**Chris McEntee, President of ICE Mortgage Services**

Intercontinental Exchange (ICE), a global exchange operator and data listings provider, has entered into a definitive agreement to acquire Simplifile, an operator of a network connecting the agents and jurisdictions that underpin residential mortgage records, for $335 million. "Originators, consumers, and investors can obtain significant benefits and savings as the real estate process shifts from paper-based to digital transactions. Simplifile understood this trend early, uniquely solving for the critical aspect of submitting required documents into the public record in a seamless, auditable and transparent method," said Chris McEntee, President of ICE Mortgage Services. "By connecting lenders, settlement agents, and counties through a robust network, Simplifile will enhance ICE's efforts to further streamline a legacy process ripe for innovation," McEntee added. According to the supplier, the acquisition is expected to expand ICE's Mortgage Services portfolio which includes MERS. Simplifile, along with MERS will propel the digitization shift of the lending industry and will allow transparency and speed in the mortgage closing process. MERS System is a national electronic database that tracks changes in mortgage servicing and beneficial ownership interests in residential mortgage loans on behalf of its members. "We've seen how ICE has helped to transform markets going through an analogue to digital conversion and has made them more transparent and efficient for all participants," said Paul Clifford, Founder and President of Simplifile. "We are closely aligned with ICE's vision as it applies to the residential mortgage industry and, as we become part of Intercontinental Exchange, our team at Simplifile will continue our efforts to simplify the industry for all of its stakeholders," Clifford added. Founded in 2000, Simplifile is an e-recording network that connects settlement agents and county recorders via its e-recording service. Its core eRecording product allows additional solutions to assist the real estate transaction supply chain. Established in 2000 and headquartered in Georgia, ICE operates exchanges, clearing houses and information services. ICE Data Services serves the information and connectivity needs across all asset classes.

## HSBC selects CGI for trade platform transformation

**Neil Sadler, Senior VP, UK Financial Services, CGI**

HSBC has partnered with CGI Inc., a Canada based global information technology consulting firm wherein the firm has been appointed with the task of delivering a new global technology trade platform for the banking giant and its clients. The intended purpose of this partnership is accelerating HSBC's trade and receivable business by bringing in emerging technologies while driving agility and processing capabilities. It intends to achieve this by making use of CGI Trade360, an end-to-end global trade finance solution, which will deliver all business and software capabilities to deliver global banking business. The use of this new technology will help HSBC edge its market leadership and thereby taking financial technology to the next level of advancement. With this HSBC stands to gain enhanced customer service through a higher level of engagement along with providing its client with technologies such as distributed ledgers, APIs and Internet of Things. Speaking about the partnership Neil Sadler, Senior Vice President, UK Financial Services, at CGI explained, " Working together on an important industry program such as this is mutually beneficial to us both, as it will allow HSBC to speed up the process of bringing additional value to their client base, while enabling CGI to accelerate the value of our market-leading intellectual property." Delivered as a software as a service (SaaS), CGI Trade360 enables banks to provide a range of traditional trade, payables, receivables and cash management services to their customers on a single, integrated and global platform. It's comprised of a corporate portal, an efficient back-office trade processing system with sophisticated imaging and workflow, an advanced reporting utility, and XML-based integration architecture.

## Standard Bank to invest in new financial technology opportunities

**Alberto Corvo, CEO of Motive Labs**

Motive Partners is set to enter into a partnership with the South African bank Standard Bank with an aim to accelerate Standard Bank's agenda, growth and value prospects. Larry McCarthy, Executive, Strategic Investments and Alliances, Standard Bank, commented, "Standard Bank welcomes the opportunity to join the Motive Labs syndicate in partnering and collaborating with leading financial institutions in order to contribute to our core and competitive disruptiveness in furthering our Africa journey." According to the supplier, Motive Labs' model will allow the bank to utilize technologies in a bid to power its efficiency, adherence to regulatory requirements, identification of opportunities and addition of value-services to its business line. Alberto Corvo, CEO of Motive Labs, commented, "I am delighted to welcome Standard Bank into our ecosystem. It is an honour to partner with the continent's leading financial institution and our team are extremely excited to begin working together on a number of identified opportunities. We could not have asked for a better partner in Africa. With over 30 countries now represented by partners in our ecosystem, we are intensely focused on delivery of new technologies. Our most recent innovation milestone will be announced soon and is something we and our partners are very proud of." With the new partnership, Standard Bank joins the Motive Labs' Membership Alliance consisting of strategic partners Allied Irish Bank, Bradesco, Emirates NBD, Mastercard & Royal Bank of Scotland. This alliance focuses on startup collaborations, innovations and financial sector disruptions.

# RBI THIS WEEK

**Mint Street Memo No. 19: Inflation Forecasts: Recent Experience in India and a Cross-country Assessment**

The Reserve Bank of India today placed on its website the nineteenth release under the series 'Mint Street Memos (MSM)' titled "Inflation Forecasts: Recent Experience in India and a Cross-country Assessment". The paper authored by Janak Raj, Muneesh Kapur, Praggya Das, Asish Thomas George, Garima Wahi and Pawan Kumar analyses the inflation forecast performance based on the all India Consumer Price Index (CPI), with a special focus on identifying the episodes of large forecast errors and explaining the underlying factors. The views and opinions expressed in MSM series are those of the authors and do not necessarily represent the views of the RBI.

**The Reserve Bank Extends Ombudsman Scheme for Non-Banking Financial Companies to eligible Non-Deposit Taking Non-Banking Financial Companies**

As announced in Para 11 of the Statement on Developmental and Regulatory Policies of the Monetary Policy Statement dated April 04, 2019, the Reserve Bank of India (RBI) today has extended the coverage of Ombudsman Scheme for Non-Banking Financial Companies (NBFCs), 2018 (the Scheme) to eligible Non Deposit Taking Non Banking Financial Companies (NBFC-NDs) having asset size of Rupees 100 crore or above with customer interface vide Notification dated April 26, 2019. The Non Banking Financial Company-Infrastructure Finance Company (NBFC-IFC), Core Investment Company (CIC), Infrastructure Debt Fund-Non-banking Financial Company (IDF-NBFC) and an NBFC under liquidation, are excluded from the ambit of the Scheme. The Scheme was launched on February 23, 2018 for redressal of complaints against NBFCs registered with RBI under Section 45-IA of the RBI Act, 1934 and covered all deposit accepting NBFCs to begin with. It provides a cost-free and expeditious complaint redressal mechanism relating to deficiency in the services by NBFCs covered under the Scheme. The offices of the NBFC Ombudsmen are functioning at four metro centres viz. Chennai, Kolkata, Mumbai and New Delhi and handle complaints of customers in the respective zones. The Scheme also provides for an Appellate mechanism under which the complainant / NBFC has the option to appeal against the decision of the Ombudsman before the Appellate Authority. The complete Scheme is available on RBI's website.

**RBI releases data on ECB/FCCB/RDB for March 2019**

The Reserve Bank of India has today released the data on External Commercial Borrowings (ECB), Foreign Currency Convertible Bonds (FCCB) and Rupee Denominated Bonds (RDB) both, through Automatic Route and Approval Route, for the month of March 2019.

**Investment by Foreign Portfolio Investors (FPI) in Debt - Review**

Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to Schedule 5 to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2017 notified vide Notification No. FEMA 20(R)/2017-RB dated November 07, 2017, as amended from time to time and the relevant directions issued thereunder. A reference is also invited to AP (DIR Series) Circular No. 22 dated April 6, 2018, AP (DIR Series) Circular No.31 dated June 15, 2018, and AP (DIR Series) Circular No. 26 dated March 27, 2019 on FPI investments in debt instruments.

2. As a measure to broaden access of non–resident investors to debt instruments in India, Foreign Portfolio Investors (FPI) are now permitted to invest in municipal bonds.

3. FPI investment in municipal bonds shall be reckoned within the limits set for FPI investment in State Development Loans (SDLs).

4. All other existing conditions for investment by FPIs in the debt market remain unchanged.

5. AD Category-I banks may bring the contents of the circular to the notice of their customers/constituents concerned.

6. Necessary amendments to Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2017 (Notification No. FEMA 20(R)/2017-RB dated November 07, 2017) have been notified by the Government on April 18, 2019 and are annexed to this circular.

7. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

**Legal Entity Identifier: Extension of deadline**

A reference is invited to circular FMRD.FMID.No.10/11.01.007/2018-19 dated November 29, 2018 issued by the Reserve Bank on requirement of Legal Entity Identifier (LEI) for participation in non-derivative markets.

2. Based on the feedback and requests received from market participants, and with a view to enable smoother implementation of the LEI system in non-derivative markets, the timelines for implementation (Phase I and Phase II) are extended as under:

| Phase | Net Worth of Entities | Current Deadline | Extended Deadline |
|---|---|---|---|
| Phase I | above Rs.10000 million | April 30, 2019 | December 31, 2019 |
| Phase II | between Rs.2000 million and Rs 10000 million | August 31, 2019 | December 31, 2019 |
| Phase III | up to Rs.2000 million | March 31, 2020 | March 31, 2020 |

3. These directions are issued under section 45W, read with section 45U, of the Reserve Bank of India Act, 1934.

# FINMIN THIS WEEK

**GST Revenue collection for April, 2019 recorded highest collection since GST implementation**

The total gross GST revenue collected in the month of April, 2019 is **Rs 1,13,865 crore** of which CGST is **Rs 21,163 crore**, SGST is **Rs 28,801 crore**, IGST is **Rs 54,733 crore** (including **Rs 23,289 crore** collected on imports) and Cess is **Rs 9,168 crore** (including **Rs 1,053 crore** collected on imports). The total number of GSTR 3B Returns filed for the month of March up to 30th April, 2019 is **72.13 lakh**.

2. The government has settled Rs 20,370 crore to CGST and Rs 15,975 crore to SGST from IGST as regular settlement. Further, Rs 12,000 crore has been settled from the balance IGST available with the Centre on provisional basis in the ratio of 50:50 between Centre and States. The total revenue earned by Central Government and the State Governments after regular and provisional settlement in the month of April, 2019 is **Rs 47,533 crore** for CGST and **Rs 50,776 crore** for the SGST.

3. The revenue in April, 2018 was **Rs** 1,03,459 crore and the revenue during April, 2019 is a growth of 10.05% over the revenue in the same month last year. The revenue in April, 2019 is 16.05% higher than the monthly average of GST revenue in FY 2018-19 (**Rs** 98,114 crore).

**Auction for Sale (Re-Issue) of Government Stocks**

The Government of India has announced the Sale (Issue/Re-issue) of (i) '7.00 per cent Government Stock, 2021' for a notified amount of Rs. **3,000 crore** (nominal) through price based auction, (ii) '7.27 per cent Government Stock, 2026' for a notified amount of **Rs. 3,000 crore** (nominal) through price based auction, (iii) 'Government of India Floating Rate Bonds, 2031' for a notified amount of **Rs. 5,000 crore** (nominal) through price based auction, (iv) '7.62 percent Government Stock, 2039' for a notified amount of **Rs.2,000 crore** (nominal) through price based auction, and (v) 'New Government Stock 2059' for a notified amount of **Rs. 4,000 crore** (nominal) through yield based auction. Subject to the limit of **Rs. 17,000 crore**, being total notified amount, Government of India will have the option to retain additional subscription up to **Rs. 1,000 crore** each against any one or more of the above securities. The auctions will be conducted **using multiple price method**. The auctions will be conducted by the Reserve Bank of India (RBI), Mumbai Office, Fort, Mumbai on **May 3, 2019 (Friday)**. Up to 5% of the notified amount of the sale of the stocks will be allotted to eligible individuals and

Institutions as per the Scheme for Non-Competitive Bidding Facility in the Auction of Government Securities. Both competitive and non-competitive bids for the auction should be submitted in electronic format on the Reserve Bank of India Core Banking Solution (E-Kuber) system on **May 3, 2019**. The non-competitive bids should be submitted between 11.30 a.m. and 12.00 noon and the competitive bids should be submitted between 11.30 a.m. and 12.30 p.m. The result of the auctions will be announced on **May 3, 2019 (Friday)** and payment by successful bidders will be on **May 6, 2019 (Monday)**. The Stocks will be eligible for "When Issued" trading in accordance with the guidelines on **'When Issued transactions in Central Government Securities'** issued by the Reserve Bank of India (RBI) vide Circular No. RBI/2018-19/25 dated July 24, 2018 as amended from time to time.

# WORLD BANK THIS WEEK

**New World Bank Fund to Support Climate-Smart Mining for Energy Transition**

WASHINGTON, May 1, 2019—The World Bank today launched the Climate-Smart Mining Facility, the first-ever fund dedicated to making mining for minerals climate-smart and sustainable. The Facility will support the sustainable extraction and processing of minerals and metals used in clean energy technologies, such as wind, solar power, and batteries for energy storage and electric vehicles. It focuses on helping resource-rich developing countries benefit from the increasing demand for minerals and metals, while ensuring the mining sector is managed in a way that minimizes the environmental and climate footprint. The Facility evolves out of a World Bank report "The Growing Role of Minerals and Metals for a Low-Carbon Future" which found that a low-carbon future will be significantly more mineral intensive than a business as usual scenario. Global demand for "strategic minerals" such as lithium, graphite and nickel will skyrocket by 965%, 383% and 108% respectively by 2050.* While the growing demand for minerals and metals offers an opportunity for mineral-rich developing countries, it also represents a challenge: without climate-smart mining practices, the negative impacts from mining activities will increase, affecting vulnerable communities and environment. The multi-donor trust fund will work with developing countries and emerging economies to implement sustainable and responsible strategies and practices across the mineral value chain. Partners include the German government and private sector companies, Rio Tinto and Anglo American. The Facility will also assist governments to build a robust policy, regulatory and legal framework that promotes climate-smart mining and creates an enabling environment for private capital.

Projects may include:

- Supporting the integration of renewable energy into mining operations, given that the mining sector accounts for up to 11 percent of global energy use and that mining operations in remote areas often rely on diesel or coal
- Supporting the strategic use of geological data for a better understanding of "strategic mineral" endowments
- Forest-smart mining: preventing deforestation and supporting sustainable land-use practices; repurposing mine sites
- Recycling of minerals: supporting developing countries to take a circular economy approach and reuse minerals in a way that respects the environment

*"The World Bank supports a low-carbon transition where mining is climate-smart and value chains are sustainable and green. Developing countries can play a leading role in this transition: developing*

*strategic minerals in a way that respects communities, ecosystems and the environment. Countries with strategic minerals have a real opportunity to benefit from the global shift to clean energy,"* said **Riccardo Puliti, Senior Director and Head of the Energy and Extractives Global Practice at the World Bank.**

The World Bank is targeting a total investment of $50 million, to be deployed over a 5-year timeframe. The Facility will focus on activities around four core themes: climate change mitigation; climate change adaptation; reducing material impacts and creating market opportunities, contributing to the decarbonization and reduction of material impacts along the supply chain of critical minerals needed for clean energy technologies.

*The World Bank's updated 2018 projections are based upon the assumption that countries will implement the Paris Agreement and reduce emissions to keep global warming below 2 degrees. In a 1.5 degree scenario, global demand for strategic minerals would increase even more by 2050. Source: World Bank report to be published in 2019.

## New Program to Scale Up Efficient, Clean Cooling in Developing Countries

**WASHINGTON, April 24, 2019** – The World Bank announced today a new program to accelerate the uptake of sustainable cooling solutions, including air conditioning, refrigeration and cold chain in developing countries. The program will provide technical assistance to ensure that efficient cooling is included in new World Bank Group investment projects and mobilize further financing. Globally, demand for cooling is increasing, mainly driven by growing populations, urbanization and rising income levels in developing countries. Further exacerbating the issue, rising temperatures will increase demand for cooling appliances, which not only use large amounts of energy, but also leak refrigerants that contribute to global warming.

**By 2050, energy use for cooling is projected to triple. Also by 2050, estimates show that demand for cooling in countries in the tropics and subtropics such as India, China, Brazil, and Indonesia will grow fivefold, which will put pressure on already strained energy systems** and hamper efforts to curb climate change.

*"Sustainable cooling is a fundamental part of the energy transition. Meeting the growing demand for cooling services without compromising climate change goals will require substantial investments in energy efficient cooling solutions that are affordable and accessible to developing countries. This is exactly what the new program is set to do and as such, it will underpin the World Bank's longer-term strategy on sustainable cooling",* said **Rohit Khanna, Manager of the Energy Sector Management Assistance Program at the World Bank.**

Already today, more than 1 billion people lack access to sustainable cooling solutions with the potential to impact health, food security, productivity and growth. The lack of cold storage and refrigerated transport contributes to 1.5 million vaccine-preventable deaths and the waste of about a third of the total food produced annually. By 2050, work hours lost due to excessive heat could result in 6 percent of lost GDP annually in the worst affected regions of South Asia and West Africa.

*"A sustainable approach to cooling is central to addressing climate change for both adaptation and mitigation. This program is a way to accelerate collaborative solutions and raise finance to meet the demand for cooling through the World Bank Group's country engagements, lending and investments,"* said **Marc Sadler, Practice Manager of the World Bank's Climate Funds Management Unit.**

Led by the World Bank's Energy Sector Management Assistance Program (ESMAP) and the World Bank's Climate Change Group, the new Efficient, Clean Cooling Program is being established thanks to a $3 million grant to ESMAP from the Kigali Cooling Efficiency Program (K-CEP), a philanthropic program established to help countries increase the energy efficiency of cooling.

*"Efficient, clean cooling can contribute significantly to a stable climate and cut energy costs at the same time. However, financing is needed to cover the capital costs of cooling technology, especially in developing countries. That is why K-CEP is excited to partner with the World Bank to mobilize the investments required to make cooling for all a reality,"* said **Dan Hamza-Goodacre, K-CEP Executive Director.**

The program will help countries develop the necessary market infrastructure, financing mechanisms, and policies and regulations to deploy sustainable cooling at scale, focusing on air conditioning, refrigeration and cold chain, cool surfaces such as reflective roofs, walls and pavements, and mitigation of urban heat island effects. Another area of focus will be working with public and private sector partners to raise awareness around efficient, clean cooling opportunities in emerging markets. Through the program, the World Bank will mobilize its expertise across sectors such as transport, energy, agriculture and urban, as well as with the International Finance Corporation (IFC) to lay the groundwork for a pipeline of new projects that could be supported by the World Bank Group or other sources of financing. These efforts will be complemented by the development of a series of technical studies and knowledge exchanges.

**Oil prices to be lower in 2019 on slower-than-expected global growth, rising non-OPEC supply**

*Metal, agriculture prices to stage partial recovery, momentum to pick up in 2020*

Crude oil prices are expected to average $66 a barrel in 2019 and $65 a barrel in 2020, a downward revision from the October forecast due to the weaker-than-expected global growth outlook and greater-than-anticipated U.S. production, the World Bank said. Metal prices are expected to continue a recovery in 2019 that follows a sharp drop in the second half of 2018, the World Bank said in its April *Commodity Markets Outlook*. The recovery has been spurred by stabilization of activity in China after weakness around the turn of the year, as well as various supply shortfalls.

*"It has become clear that the commodity price cycle has come to an end, which is causing strains for exporters but may offer opportunities for importers,"* said **Ceyla Pazarbasioglu, World Bank Equitable Growth, Finance & Institutions Vice President**. *"Exporters may have to adapt to slower gains in commodity revenues with economic diversification, while importers could take advantage of lower commodity prices for increased investment."*

Agriculture prices are projected to fall 2.6 percent this year but rebound in 2020 due to lower crop production and higher costs for energy and fertilizers. An escalation of trade tensions would likely push prices lower, but higher-than-expected energy costs could lift prices more than expected.

*"The outlook for commodity prices is sensitive to policy-related risks, especially for oil,"* said **Ayhan Kose, Director of the World Bank's Prospects Group**. *"The outlook for oil could be swayed by a range of policy outcomes, including whether the Organization of the Petroleum Exporting Countries (OPEC) and partners extend production cuts, the impact of the removal of waivers to the U.S. sanctions on Iran, and looming changes in marine fuel emissions regulations."*

After a drop in late 2018, oil prices have risen steadily since the start of the year, as OPEC and partners have cut production, and output has declined in Venezuela and Iran. U.S. shale production is expected to remain robust after surging in 2018. Energy prices overall – which also include natural gas and coal – are expected to average 5.4 percent lower in 2019 than in 2018. A special focus section shows that when countries intervene to dampen the effect of food price fluctuations on their citizens, the collective intervention of many countries can produce the opposite of the intended effect and amplify movements in world prices – to the detriment of the most vulnerable populations.

# IMF THIS WEEK

**Bank Profitability: Consider the Source**

**About the Blog**

IMFBlog is a forum for the views of the International Monetary Fund (IMF) staff and officials on pressing economic and policy issues of the day.

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By Udaibir S. Das, Kun Hu, and TengTeng Xu

Español, Français, Português

The global financial crisis of 2007–2009 and the ensuing period of low interest rates have renewed interest among policy makers in the relationship between bank profitability and financial stability. Despite the subsequent recovery, the return on equity of many banks remains below the cost of equity. Market valuations remain below the balance sheet value of banks, indicating the market's assessment of banks' ability to overcome profitability challenges is not optimistic. In a recent IMF Working Paper, we look into how bank profitability affects financial stability from both theoretical and empirical perspectives. We developed a theoretical model of the relationship between bank profitability and financial stability by exploring the role of non-interest income and retail-oriented business models. We then analyzed data from 431 publicly traded banks to examine the determinants of bank risks and profitability, and how the level and the source of bank profitability affect risks. In this regard, we analyzed not only the link between the *level* of bank profitability and financial stability, but also the deeper question of how the *source* of bank profitability affects financial stability.

**While the level of bank profitability is important for financial stability it matters greatly where a bank's profits come from.**

The banks in the study included all global systemically important banks worldwide, and all public banks in the U.S. and developed Europe. The sample period spans 2004 to 2017. We found evidence that higher profitability is associated with lower risks not only at the individual institution level, but also at the system level, measured by the contribution to systemic risks. High profits lower risk in two ways. Profits tend to build up buffers against negative shocks. And the prospect of future profits restrains banks' risk-taking behaviour as they have more "skin in the game." While the level of bank profitability is important for financial stability it matters greatly where a bank's profits come from.

In the low-interest-rate environment following the global financial crisis, banks diversified by looking for non-interest sources of income. Increased reliance on non-interest income tends to be associated with heightened risks for banks, measured both at the firm level and in terms of the contribution to systemic risk. The level of increased risk depends on a bank's business model. While non-interest income activities could provide some diversification benefits for retail-oriented banks with a relatively high loan-to-asset ratio, an over-reliance on non-interest income could lead to higher risks. Yet not all types of non-interest income activities generate the same level of risk. Retail-oriented banks may be more inclined to choose retail-oriented non-interest income activities, because they are complementary to their existing lending customer base. Some examples of retail-oriented non-interest income include payment services fees (such as credit card fees) and insurance commissions. These activities tend to offer stable profits and the benefits of diversification.

By contrast, less retail-oriented banks may derive a relatively large share of the non-interest income from market-based activities, such as underwriting, market-making, trading, and investment-banking services. These activities tend to generate more volatile and pro-cyclical income and are associated with higher risks, both to individual institutions and to the financial system. Similarly, other characteristics of wholesale-oriented business models—including high leverage, and reliance on wholesale funding sources—are also associated with heightened risks. A close link also exists between competition and financial stability. Banks with higher market power—as measured by the Lerner index of their ability to mark up prices—tend to be associated with lower risks at the individual bank level but higher contribution to systemic risk. While the ability to mark up prices benefits an individual bank, it could increase risks at the systemic level due to the excessive market power of some banks. This finding is particularly relevant given the rise in bank consolidation following the global financial crisis.

**What does this mean for the policy makers?**

First, the results highlight the need for a sharper distinction between different types of non-interest income, recognizing that market-based non-interest activities are riskier than retail-based activities.

Second, it's important to account for the impact of bank consolidation on competition and systemic risk. Policy makers need to strike a balance between cost-saving consolidation and a competitive banking environment. One approach to foster competition is to allow for the entry of new firms into the financial sector instead of raising excessive domestic and foreign barriers to entry. Third, these results show the need to evaluate the source and sustainability of bank profits, especially when there is over-reliance on non-interest income, wholesale funding, and leverage. Paying more attention to these issues can help policy makers to better design and calibrate stress tests and systemic risk analysis.

**Chart of the Week Falling Costs Make Wind, Solar More Affordable**

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By Christian Bogmans

Harnessing wind and solar energy for low-carbon electric power generation was once considered uneconomical. Now, rapidly falling costs for these technologies are boosting global renewable energy capacity. Renewable energy sources can help reduce carbon emissions substantially and the effects of global warming. As the Chart of the Week from the April *World Economic Outlook* shows, solar and onshore wind turbines saw the biggest price declines among low-carbon energy sources between 2009 and 2017. Prices dropped 76 percent for solar panels and 34 percent for turbines during that time, making them competitive alternatives to fossil fuels and more traditional low-carbon energy sources such as hydropower and nuclear. The numbers are based on the so-called levelized cost of electricity, a method of calculating the cost per unit of power that would be needed to recover the investment in building and operating different generating technologies. Global investment in renewable energy capacity has accelerated in the past decade, as wind and solar have emerged as cost-effective power sources. While hydropower attracted the most investment in renewable energy up to 2008, wind turbines took the lead in 2009, and solar panels became the dominant investment choice by 2016. In 2017, more was invested in solar than in all other low-carbon technologies combined.

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**Solar and onshore wind turbines saw the biggest price declines among low-carbon energy sources between 2009 and 2017.**

While the cost of wind and solar power generation declined, nuclear and hydropower costs rose 21 percent and 9 percent, respectively, during the same period. Unlike wind and solar power, nuclear and hydro are mature technologies that require large investment in structures with low standardization, similar to other large-scale civil engineering projects such as bridges and railroads. These factors tend to limit the potential for cost reduction for these kinds of projects. In contrast, research and development in solar and wind technologies, their standardization, and economies of scale in manufacturing have resulted in increasingly efficient solar panels and larger wind turbines. While predictions are difficult, the experience with wind and solar technologies may suggest a similar path for the cost of producing electric batteries, whose production could become significantly more efficient with standardization and economies of scale.

**IMF and China's Ministry of Finance Sign a New Agreement on Strengthening Fiscal Institutions**

On April 24th, the IMF Managing Director Christine Lagarde and China's Finance Minister LIU Kun signed a new Memorandum of Understanding (MOU) on technical cooperation and training to support China's fiscal reforms, macro-fiscal issues, and priorities related to the Belt and Road Initiative. The agreement builds on the already close collaboration between the IMF and Ministry of Finance. The agreement will provide further support to modernize Chinese fiscal institutions, which will play a critical role for China's sustainable development. The three-year agreement will focus on cooperation to strengthening government finance and public balance sheet statistics, as well as frameworks related to fiscal and debt sustainability analysis, improving fiscal relations between central and local governments, developing local government bond markets, designing tax policy and expenditure policy reforms, analyzing international tax spillovers, developing macro-fiscal frameworks and projections, and improving treasury management.

# BASLE THIS WEEK

**Asia-Pacific fixed income markets: evolving structure, participation and pricing**

The Bank of Korea and the Bank for International Settlements (BIS) co-hosted a conference on "Asia-Pacific fixed income markets: evolving structure, participation and pricing" on 19-20 November 2018 in Seoul, Korea. The conference marked the completion of the BIS Asian Office's two-year research programme on fixed income markets that had been endorsed by the Asian Consultative Council of central bank Governors in May 2017. The conference brought together senior officials and researchers from central banks, international organisations and academia. This volume is a collection of the speeches, papers and prepared discussant remarks from the conference. Papers presented at the conference covered the effects of advanced economy monetary policy on bond markets; determinants of Asian bond prices; corporate bond market liquidity; the establishment of benchmark bonds; bond financing by Asian firms; and the role of different institutional investors in Asia-Pacific bond markets.

**Stephen S Poloz: Opening statement before the House of Commons Standing Committee on Finance**

Opening statement by Mr. Stephen S Poloz, Governor of the Bank of Canada, before the House of Commons Standing Committee on Finance, Ottawa, Ontario, 30th April 2019.

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Good morning, Mr. Chairman and committee members. Once again, Senior Deputy Governor Wilkins and I are pleased to be with you to talk about the Bank's *Monetary Policy Report* (MPR), which we published last week. Six months ago, when we last appeared before this committee, we talked about some very positive developments. The Canadian economy had solid momentum and had essentially completed its journey home-that is to say, it was operating very close to its capacity, and inflation was running near our target. At the same time, we were monitoring the risks posed by protectionist trade measures and elevated levels of household debt. Unfortunately, since then, there have been a couple of negative developments. These have caused a detour for the economy and are delaying its return home. Our forecast is based on the belief that the impact of these developments will be temporary, and that once the associated adjustments take place, stronger economic growth will resume. So, in the MPR, we marked down our forecast for economic growth this year to 1.2 per cent, and we project growth of near 2 per cent for both 2020 and 2021. Let me give you some details. First, the global economy slowed toward the end of last year. To be clear, some slowing was expected as the stimulative impact of US fiscal measures fades. But the slowdown was deeper than most forecasters projected and has persisted into 2019. A major factor behind this global slowdown has been the US-led trade war. This is delaying business investment decisions in many countries around the world. Uncertainty about future trade policies has risen-here in Canada, doubts about the ratification of the Canada-United States-Mexico Agreement have increased, and these remain a downside risk to our outlook for investment.

It is certain that an escalation of trade conflicts would be a blow to the global economy. However, the global economy could receive a significant lift if there were progress in resolving these conflicts. I should emphasize that businesses and economies will ultimately adjust to the heightened level of uncertainty around trade, by adjusting their investment plans lower. Once those adjustments are complete, however, economic growth can pick up again. The other major development since October was another sharp decline in oil prices late in 2018, which put Canada's oil sector under considerable stress. More recently, oil prices have firmed, including the prices our western producers receive. But transportation constraints on future growth remain a significant source of drag and uncertainty. This has led to another downward revision to investment intentions in the sector. Some of this downgrade is likely more structural than cyclical in nature, as it represents the continued adjustment of the sector to global oil prices of US$50-60 per barrel, rather than the much higher prices of five years ago. This adjustment process is also being reflected in wages and other costs, and in developments in the housing market in Alberta.

It is important to note that as investments in the oil patch are pared back, Canada's growth slows. But when those investment levels stop falling, Canada's growth will pick up again, even if oil sector investment does not, because other areas of growth will come to dominate the data. We saw this same dynamic following the oil price shock of 2014-15. In addition to concerns about global trade and oil prices, we have continued to watch how the Canadian housing market is adjusting to the combination of provincial and municipal housing policy measures, the revised guidelines for mortgage lending, and past increases in interest rates. The adjustment of the housing market is particularly important given the context of elevated levels of household debt.

Our analysis has been complicated by activity in some previously frothy markets-the greater Toronto and Vancouver areas, in particular. Research by Bank staff shows that the sharp rise in housing resales above fundamental levels in Ontario and British Columbia-and the subsequent fall-correlates strongly with house price expectations. This suggests that provincial and municipal housing policy measures have had a much stronger impact on housing activity than changes to mortgage lending guidelines and past increases in interest rates. Supporting this analysis is the fact that many other markets across the country are seeing solid activity even though they have the same mortgage lending guidelines and interest rates. This is what would be expected in an economy that is growing, with a rising population and strong labour market. The implication is that as the situation in Toronto and Vancouver stabilizes, the Canadian housing sector should return to growth overall later this year. Finally, I would note that the federal government and several provinces have made fiscal announcements during budget season. Our analysis suggests that the combined impact of adjusted spending plans announced to date would lead to a downward revision for our growth outlook of about 0.2 percentage points in 2020. In sum, the Canadian economy is currently facing some headwinds, but there is good reason to believe that the economy will accelerate in the second half of this year. In this context, the Bank's Governing Council judges that an accommodative policy interest rate continues to be warranted. We will continue to evaluate the appropriate degree of monetary policy accommodation as new data arrive. In particular, we are monitoring developments in household spending, oil markets and global trade policy to gauge the extent to which the factors weighing on growth and the inflation outlook are dissipating. With that, Senior Deputy Wilkins and I would be happy to take your questions.

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