ALL INDIA BANK OFFICERS' ASSOCIATION

[CENTRAL OFFICE]
A.K.Nayak Bhavan, 2nd Floor 14, Second Line Beach,
CHENNAI-600 001

Phone: 25265511 / M 9840645081 / FAX: 044-25249081 / e mail: aiboa.hq@gmail.com www.aiboa.org

ISSUE NO 381

BY VASANT PONKSHE
CO-CHAIRMAN BOMOA
PERMANENT INVITEE TO AIBOA

FINANCIAL SECTOR
WEEKLY NEWS UPDATES
27th May to 01st June 2019

<u>India's economy seen limping behind China as Modi begins second term</u>

India probably lost its spot as the fastest growing major economy to China in the January-March quarter as a chill in domestic and global consumer demand hit manufacturers and service providers. The slowing economy didn't stop voters giving Prime Minister Narendra Modi a landslide victory in an election concluded earlier this month. But it puts an onus on him to deliver reforms that can truly unlock growth, which had waxed and waned during his first five years in office. A Reuters survey of economists forecast growth slipped to 6.3% annually in the three months ending in March, its slowest pace in six quarters. If they are right, India would lag China, which notched 6.4 pct growth in the March quarter, for the first time in one-and-a-half years. Modi is expected to begin his second term by prioritising growth in an economy that isn't creating enough new jobs for the millions of young Indians entering the labour market each month. His first task could be finding a new finance minister, as Arun Jaitley has asked to step aside due to health reasons. Whoever takes Jaitley's place will have to draw up a budget due to be presented in July. The government is widely expected to deliver some fiscal stimulus while keeping the deficit at manageable levels. On the plus side, the Reserve Bank of India could have leeway to reduce interest rates as inflation remains subdued. The gross domestic product data for January-March quarter and provisional estimates for the whole 2018/19 fiscal year ending in March will be released on Friday around 1200 GMT. The RBI has lowered its economic growth forecast for 2019/20 fiscal year beginning April to 7.2%. The central bank's monetary policy committee (MPC), which has cut policy rates by 50 basis points this year, is expected to cut the repo rate by a further 25 basis points at its June 4-6 meeting, bringing it to 5.75%, the lowest since July 2010. Retail inflation has stayed below 3 percent for last six months, possibly low enough to take the risk of cutting rates without waiting to seeing whether the monsoon rainy season starting next month holds any danger of a spike in food prices. Several indicators - automobile sales, rail freight, petroleum product consumption, domestic air traffic and imports indicate a slowdown in domestic consumption. Corporate earnings hit a six-quarter low growth of 10.7% during January-March quarter on weakening consumer sentiment and softening commodity prices, ICRA, the Indian arm of the ratings agency Moody's said on Tuesday, citing a sample of over 300 companies. "The signs of slowdown in domestic demand are visible both in urban and rural areas," Federation of Indian Chambers of Commerce and Industry said in a statement earlier this week, while submitting pre-budget demands to the finance ministry. Industry chambers have lobbied for a fiscal stimulus including a cut in corporate tax rates and lower interest rates. The government could front-load its budget spending and announce some tax sops for individual tax payers and companies, a senior finance ministry official told Reuters, while citing fiscal constraints due to a slower growth in tax receipts. But some economists said monetary and fiscal stimulus could have a limited impact. They fear the economy is in danger of a prolonged phase of slower growth due to stagnant rural wages, rising real interest costs for manufacturers and reluctance to lend among banks and non-bank finance firms due to alarmingly high defaults. "While cyclical challenges can be addressed through short-term measures, the need of the hour is to address the structural challenges plaguing the Indian economy," said Sunil Kumar Sinha, economist at India Ratings and Research, the arm of Fitch ratings agency. Some finance ministry officials have suggested Modi's government could push long pending reforms, related to land acquisition and labour, during the coming year, though it will have to coordinate with state governments.

View: Modi 2.0 faces the tough task of fixing India's job problem

By Anjana Menon

As Narendra Modi is sworn in as prime minister today for a second time, the millennial who voted him to power may pose his biggest challenge. He will have to ensure India has the capacity to create enough jobs to keep the youth and their swelling ranks busy. Signs are he will have to start by fixing the quality of education to make them employable. According to World Bank data, each year India adds about 12 million young people to the workforce. At 1 million a month, it's a breathless task for any government to enable job creation at that rate. In India, that's compounded by a skill mismatch, resulting in the un-employability of many who enter the job market. A leaked — and thereafter hotly contested — report by the National Sample Survey Office (NSSO) earlier this year cited unemployment at a 45-year high. The pugnacious dispute on these numbers will keep surfacing from time to time. That notwithstanding, Indians coming into the work pool now have grown up in a different India, bringing a new set of challenges. They are far more aspirational and ambitious, unlike previous generations. To take stock, 45 years ago India had only two brands of cars on its roads — Hindustan The end of Five-Year Plans: All you need to know Motors' Ambassador and Fiat's Premier Padmini. A phone connection, possible only through the state-run telephone provider, was an instrument of privilege available to very few. The only airlines in business were the national carriers. For today's youth, this deprivation is the stuff of grandmother's tales. In liberalised India, mobile phones and Internet connectivity offer unprecedented access to information and services from around the world. More airlines are collapsing than were in service four decades ago, and India is a rock-star-hub for carmakers. Trouble is, such strong aspirations could easily be frustrated by staunch un-employability, triggering a frustration aggression syndrome in the so-called 'youth bulge'. Youth bulge, a term coined by German social scientist Gunnar Heinsohn, happens when a large share of the population is between 15 and 24 years. India defines youth as those between 13 and 35. While this can be a demographic advantage, when channelled into productive work, an under-utilised youth bulge poses problems. Heinsohn theorises that as more youth remain unemployed, it triggers higher violence, civil unrest and crime. According to another research paper by the World Bank (Breaking the Waves? Does Education Mediate the Relationship Between Youth Bulges and Political Violence? Bilal Barakat and Henrik Urdal, bit.do/eTEeg), the effect on conflict risk by low education and large youth populations is particularly strong in low and middle-income countries, and education is one way to mitigate political violence in the youth bulge. Several Asian countries have successfully managed their youth bulge. South Korea turned a young population to its advantage in the 1970s and 1980s by investing in education, family planning and skilling. China shifted its youth from vulnerable agrarian jobs to more assured work by being the manufacturing factory of the developed world. In the coming decade, however, this cheap labour model won't hold. Machines will increasingly do the jobs that people do, more inexpensively and accurately. Delivery boys could be replaced by drones, call centres managed by automation and back-end programming done by deep-learning machines. Jobs of today won't be the jobs of the future. On the other hand, hoping that all young Indians will turn entrepreneurial and solve the problem of unemployment is a dream too stretched. Tomorrow's workplace will need a highly skilled workforce, and a sound and flexible labour market, not necessarily a labour-intensive one. And tomorrow's workforce would need contemporary education that is sophisticated and future-ready with continuous skilling and lifelong learning. From the signs of it, India is unprepared for this shift in its inadequate public education system, or even much of its private education curriculum. To pull off the kind of restructuring that will make the youth bulge an asset, India needs a grass root level overhaul of education and a better academic infrastructure. Anything short of that will make the youth a runaway liability. For sure, the ruling NDA introduced Make In India, Skill India and Startup India to ally threats of unemployment. While being a brave attempt, these programmes won't count for much without Re-educate and Recalibrate India. That recalibration, led by the private sector, should include greater rewards for apprenticeships and vocational choices, rather than unusable college degrees. It should capture aptitude as much as aspiration. India's youth deserves schooling that gives them a fair shot at employability, better healthcare and upward mobility. Enabling that transformation is the only thing that will earn any modern government a lasting place in history books.

RBI forms two panels to strengthen sale of stressed corporate assets and housing loan portfolios

Mumbai: The Reserve Bank of India has appointed two separate six-member panels to create a more transparent framework for the sale of bad corporate assets and securitisation of housing loans in a bid to make these processes more open and structural. These panels have been asked to review the existing market operations and come up with recommendations aligning them with global best practices, the central bank said in two separate statements released late Wednesday evening. The regulators deemed the existing state of both markets dominated only by certain players due to lack of clarity on operating mechanisms. The panel on secondary market for corporate loans, headed by Canara Bank Chairman T N Manoharan, has been asked to gauge the possibility of setting up a loan transaction platform for the sale stressed asset and creation of a loan contract registry to standardise information. "A well-developed secondary market for debt would also aid in transparent price discovery of the inherent riskiness of the debt being traded," according to the RBI statement, adding that the current market lacks any formalised mechanism and is largely restricted to sale of bad debts by banks to asset restructuring companies (ARCs) and "ad hoc sales" to peer lenders. "A vibrant, deep and liquid secondary market for debt would go a long way in increasing the efficiencies of the debt market in general and would aid in resolution of stressed assets in particular," RBI said. Additionally, RBI's panel for housing loan securitisation, headed by Bains and Co. advisor Harsh Vardhan, has been mandated to review the current market operations and recommend policy interventions. "...it is imperative that the market moves to a broader issuance model with suitable structuring of the instruments for diverse investor classes…as the international experience shows, it is critical to address the issues of misaligned incentives and agency problems resulting from information asymmetry problems between the originators and investors in the market, which can exacerbate systemic risk," according to the RBI statement. Data from rating company ICRA showed that the securitisation volume in FY19 more than doubled as against FY18 to Rs.2 lakh crore, of which major chunk of loans sold were by housing finance companies (HFCs) to banks in order to raise funds owing to tough liquidity conditions. "The mortgage securitisation market in India is primarily dominated by direct assignments among a limited set of market participants on account of various structural factors impacting both, the demand and the supply side, as well as certain prudential, legal, tax and accounting issues," RBI said.

India's economy seen limping behind China as Modi begins second term

NEW DELHI: India probably lost its spot as the fastest growing major economy to China in the January-March quarter as a chill in domestic and global consumer demand hit manufacturers and service providers. The slowing economy didn't stop voters giving Prime Minister Narendra Modi a landslide victory in an election concluded earlier this month. But it puts an onus on him to deliver reforms that can truly unlock growth, which had waxed and waned during his first five years in office. A Reuters survey of economists forecast growth slipped to 6.3% annually in the three months ending in March, its slowest pace in six quarters. If they are right, India would lag China, which notched 6.4 pct growth in the March quarter, for the first time in one-and-a-half years. Modi will be sworn in later on Thursday, and is expected to begin his second term by prioritising growth in an economy that isn't creating enough new jobs for the millions of young Indians entering the labour market each month. His first task could be finding a new finance minister, as Arun Jaitley has asked to step aside due to health reasons. Whoever takes Jaitley's place will have to draw up a budget due to be presented in July. The government is widely expected to deliver some fiscal stimulus while keeping the deficit at manageable levels. On the plus side, the Reserve Bank of India could have leeway to reduce interest rates as inflation remains subdued. The gross domestic product data for January-March quarter and provisional estimates for the whole 2018/19 fiscal year ending in March will be released on Friday around 1200 GMT. The RBI has lowered its economic growth forecast for 2019/20 fiscal year beginning April to 7.2%. The central bank's monetary policy committee (MPC), which has cut policy rates by 50 basis points this year, is expected to cut the repo rate by a further 25 basis points at its June 4-6 meeting, bringing it to 5.75%, the lowest since July 2010. Retail inflation has stayed below 3 percent for last six months, possibly low enough to take the risk of cutting rates without waiting to seeing whether the monsoon rainy season starting next month holds any danger of a spike in food prices. Several indicators - automobile sales, rail freight, petroleum product consumption, domestic air traffic and imports indicate a slowdown in domestic consumption. Corporate earnings hit a six-quarter low growth of 10.7% during January-March quarter on weakening consumer sentiment and softening commodity prices, ICRA, the Indian arm of the ratings agency Moody's said on Tuesday, citing a sample of over 300 companies. "The signs of slowdown in domestic demand are visible both in urban and rural areas," Federation of Indian Chambers of Commerce and Industry said in a statement earlier this week, while submitting pre-budget demands to the finance ministry. Industry chambers have lobbied for a fiscal stimulus including a cut in corporate tax rates and lower interest rates. The government could front-load its budget spending and announce some tax sops for individual tax payers and companies, a senior finance ministry official told Reuters, while citing fiscal constraints due to a slower growth in tax receipts. But some economists said monetary and fiscal stimulus could have a limited impact. They fear the economy is in danger of a prolonged phase of slower growth due to stagnant rural wages, rising real interest costs for manufacturers and reluctance to lend among banks and non-bank finance firms due to alarmingly high defaults. "While cyclical challenges can be addressed through short-term measures, the need of the hour is to address the structural challenges plaguing the Indian economy," said Sunil Kumar Sinha, economist at India Ratings and Research, the arm of Fitch ratings agency. Some finance ministry officials have suggested Modi's government could push long pending reforms, related to land acquisition and labour, during the coming year, though it will have to coordinate with state governments.

Government plans road bumps for pre-2000 vehicles

NEW DELHI: Running an older vehicle of pre-2000 make, particularly commercial ones, will soon become more taxing. Such vehicles will have to undergo frequent fitness tests and there will also be about 15-20 fold increase in the fees for both first time registration of diesel/ petrol vehicles and for renewal of their registration. These are some of the disincentives that the government has finalised in its blueprint to push the phasing out of older polluting vehicles. According to different studies, older vehicles are 25 times more polluting as compared to new ones. Sources said old commercial vehicles will be the main focus of voluntary scrapping scheme, which the government is likely to launch in the next three to four months. Government's think tank Niti Aayog, which is taking the lead in fast-tracking the policy, has held rounds of consultations. Sources said there will be a carrot and stick policy to give incentive to those who scrap their old vehicles to buy a new one while making it difficult for owners of older vehicles. TOI has learnt that there is a proposal to waive off the registration fee for new vehicles, if the buyer shows a certificate of scrapping his old vehicle. The government will also convince the vehicle manufacturers to offer discounts for new vehicles bought against scrapping certificate.

PNB sets Rs 20,000 crore recovery target in FY20

MUMBAI: Punjab National Bank intends to recover Rs 20,000 crore of bad loans in the current financial year through one-time settlements and resolutions under the Insolvency and Bankruptcy Code (IBC). The state-owned bank's target is 25% higher than recoveries of Rs 16,000 crore in the previous financial year. "We have analysed our portfolio to look at recoveries from Sarfaesi (Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act), OTS (onetime settlement) and also IBC," said LV Prabhakar, executive director at PNB. "Last year, we had identified 2.25 lakh accounts for recoveries under the OTS scheme. Some of these instalments are still coming through and this year we will expand the scope of these accounts to loans up to Rs 50 crore from which we expect recoveries." The bank is stepping up on loan recoveries as losses continue due to higher provisioning as recoveries from the IBC have been slow and old bad loans have aged, requiring more to be set aside against them. The bank posted a loss of Rs 4,750 crore in the quarter ended March as provisions for non-performing assets remained elevated at Rs 9,154 crore. PNB made a net loss of Rs 13,417 crore a year ago after the Rs 14,000 crore Nirav Modi scam. It swung to a net profit of Rs 247 crore in the quarter ended December. The bank's gross NPAs stood at Rs 78,472.7 crore at the end of March. Managing director Sunil Mehta said the bank had to make an extra Rs 1,200 crore provision for loans to Essar Steel because the recovery did not materialise. "We would have got back Rs 1,800 crore from the account, but we had to provide a further Rs 1,200 crore. This Rs 3,000 crore impacted our profit. But we now have made 100% provision on the account and can only expect a write back from here," Mehta said. The bank's provision coverage ratio improved to 75% in March from 58% a year earlier. Mehta said a higher ratio means better chances of a write back for the bank. PNB expects Rs 6,000 crore to come from Essar Steel and Bhushan Power & Steel and Rs 4,000 crore from other accounts taken to court under the IBC. "These recoveries and an expected double-digit loan growth will help us… We are also planning to sell our non-financial, non-core assets like an old office building in Delhi, for which we are expecting Rs 1,000 crore. We are expecting to raise funds from the market in the second half of the year," Mehta said.

NBFCs and old private sector banks: Made for each other?

The Bank Nifty might be close to record highs, but near irrelevance appears to be the fate for a crucial lending segment: Old private sector banks. Unless Mint Road obliges, that is. A liberal regulatory regime could however breathe a new lease of life into these lenders if capital-rich NBFCs are allowed to merge with these institutions, many of which trace their origins to a business landscape pre-dating India's Independence. Old private sector banks and other smaller banks with low-cost liabilities are attractive bets for large NBFCs. IDFC Bank's merger with Capital First has shown the way. If RBI approves Lakshmi Vilas Bank's merger with Indiabulls Housing Finance, it could set a precedent for others. "Whenever NBFCs grow to a certain size, they have no option but to convert into a bank for future growth and sustainability," said Abizer Diwanji, national leader financial services, EY. NBFCs are finding it difficult to raise low-cost finance. Previously, old private sector banks in India merged with other banks. For example, Lord Krishna Bank merged with Centurion Bank of Punjab in 2007, Sangli Bank merged with ICICI Bank in 2006, and Centurion Bank of Punjab merged with HDFC in 2008. More recently, in 2016, ING Vysya Bank was merged with Kotak Mahindra Bank. "NBFCs can never sustain a wholesale balance sheet and yet compete for retail credit," said Diwanji. "If they try to raise capital, their cost of funds goes up so high that they are not able to grow. Other option is to migrate to deposits. A bank licence will give them the ability to take deposits. NBFCs like Capital First migrated toward deposit base by merging with a bank. Other micro finance companies or NBFCs that converted into small finance banks also migrated toward a deposit base." Meanwhile, the IL&FS crisis has shown that leverages do not work.

LAST-MILE CONNECTIVITY

NBFCs have been credited with reaching out to last-mile customers. Banks can gain from NBFCs' understanding of customers in rural markets. "The case to rejuvenate old private sector banks is critical," said Janmejaya Sinha, chairman, BCG India. "They own a valuable licence denied to others. There is a case to allow dynamic and solid NBFCs to merge with old private sector banks or to allow NBFCs easy bank licences." Allowing mergers between robust NBFCs and old private banks will solve the RBI's problem of dealing with weak banks. "Instead of forcing a strong bank to take over a weak bank, RBI should allow NBFCs to merge with banks because the former will cherish it more as they now get access to deposits," said Sinha. NBFCs with large balance sheet would want concessions in maintaining statutory liquidity ratio and cash reserve ratio. Many NBFCs and housing finance companies (HFCs) have balance sheets of more than 1 lakh crore. Catholic Syrian, Tamil Nadu Mercantile and Karnataka Bank are some old-generation private sector banks that could benefit from mergers with large NBFCs. It would be easier for NBFCs to convert into banks if the regulator came out with such a conversion proposal, defining timelines for CRR and SLR compliance. "When an NBFC is merged into a bank, the challenge is for NBFCs with asset size bigger than banks to maintain SLR and CRR," said Umesh Revankar, MD and CEO, Shriram Transport Finance. "If RBI gives certain concessions for Indiabulls for maintaining SLR when it approves the merger with LVB, the positive signalling would help."

THE CONSOLIDATION DRIVE

The proposed merger between LVB and Indiabulls involves the union of impaired institutions. LVB has high non-performing assets and depleting capital ratio. Indiabulls Housing, meanwhile, is facing growth issues due to liquidity constraints. "RBI should think about what kind of financial sector India should have," said Janmejaya Sinha. "It needs to allow Indians a savings vehicle and asset vehicle. The original mandate of banks was to accept deposits, aggregate them and allow it to be intermediated. Banks preferred doing large loans because it was easier and neglected retail assets and SMEs. NBFCs came in to cover up the inefficiencies of banks." If the Indiabulls-Lakshmi Vilas deal goes through, it will create a template for future transactions. Getting a bank licence is a tedious task in India because of the fiduciary responsibilities associated with money management. "NBFCs taking over banks raise many questions from the risk perspective," said Kuntal Sur, risks and regulation leader at PWC India. "It means that NBFCs can bypass the stringent fit and proper criteria of the RBI. It also will give them access to public deposits which are fiduciary in nature. Some of these NBFCs have exposure to the construction and real estate sectors, which are in the regulator's negative list. So, the regulator has to take a careful decision because it has wide ranging implications."

OVERSIGHT AT LARGE NBFCS

The central bank would not want NBFCs or HFCs to fail because of their interconnectedness within the financial sector and systematic importance. So, Mint Road has proposed strict liquidity rules for NBFCs so that they are able to tide over periods of stress, without causing major disruptions to the broader financial system and consumption industries. "As NBFCs become bigger in size, the supervision becomes stronger because they become more important," said Prakash Agarwal, head-financial institutions, India Ratings and Research. BCG's Sinha said that RBI will have to distinguish between short-term and structural solutions for the NBFC sector. Some NBFCs are under stress after the IL&FS crisis. Last week, DHFL said it would neither allow premature withdrawal of deposits, nor would accept fresh money. To be sure, larger NBFCs could lead to a disruption because of their disproportionate share in the market. "It would be wrong to open up NBFCs for buying out banks just because of the short-term issues they are facing," said Agarwal. "There are deeper problems, including a lack of diversified ownership, which need careful thought. There are a lot of questions the RBI has to consider and I think it needs more debate and discussion."

NCLT approves Tata Steel takeover of Bhushan Energy

The National Company Law Tribunal (NCLT) on Thursday approved the resolution plan of Tata Steel to acquire debt-ridden Bhushan Energy Ltd for around Rs 800 crore. The principal bench of NCLT Delhi also rejected objections from Bhushan Energy's former promoter Neeraj Singal opposing Tata Steels' bid. Under the resolution plan, Tata Steel will offer an upfront payment of Rs 730 crore. It would also pay Rs 50 crore additionally to operational creditors of the company. Besides, Tata Steel would also infuse Rs 367 crore into the company as a part of equity infusion. A detailed order is still awaited in this matter. The order was pronounced by NCLT on Thursday. Bhushan Energy was a subsidiary of Bhushan Steel Ltd, which was also taken over by Tata Steel last year in May and later renamed as Tata Steel BSL Ltd. Tata Steel had offered Rs 35,200 crore in cash to acquire Bhushan Steel besides Rs 1,200 crore to creditors and convert the remaining debt owed to banks to equity. Incorporated in 2005, Bhushan Energy is based in Dhenkanal, Odisha. In FY2015-16, Bhushan Energy had reported a gross debt of Rs 2,336 crore. Earlier in June last year, in this matter, NCLT had extended the insolvency resolution period for 90 days after the creditors failed to find a suitable buyer within the initial period of 180 days as mandated under the Insolvency & Bankruptcy Code (IBC).

SFIO and IL&FS board probing why rating co ignored analyst's concerns

The Ministry of Corporate Affairs (MCA) and the new board at IL&FS are investigating why questions raised by a junior analyst at a rating agency about financial irregularities at the infrastructure financier were ignored by the top management at the creditworthiness evaluator. The junior executive has allegedly told probe officials that when he brought his concerns to the notice of the senior management at the rating agency, the decision makers refused to act upon his findings, claiming the books of IL&FS and related companies were good. The crisis at IL&FS came to light in July 2018, when its roads unit faced difficulty in making repayments due on bonds. Credit rating agencies then started to cut the rating for the group parent, IL&FS, beginning August. "In March, one of the four agencies raised a red flag about the group's elevated leverage but citing the company's track record in the infrastructure sector, it retained the investment grade," said a government official who didn't wish to be named. "In another case, a junior analyst did alert his seniors about the situation in IL&FS Financial Services, but the seniors overlooked and trusted the rosy projection given by the management." The Serious Fraud Investigation Office (SFIO), the investigation arm of the MCA, had questioned officials of rating agencies earlier this year. SFIO is investigating whether rating agencies, entrusted with the responsibility of qualifying and grading the creditworthiness of borrowers, have knowingly suppressed information. Four credit rating agencies --- Care Ratings, ICRA, India Ratings and Brickwork Ratings --- are being probed by the SFIO and the new IL&FS board on the rating action at IL&FS Financial Services Ltd (IFIN). Emails sent to ICRA, CARE Ratings, India Ratings and Brickwork Ratings remained unanswered until the publication of this report. IL&FS group chief communication officer Sharad Goel declined to comment on the matter. "Because of the credit ratings given by rating agencies, EPFO (Employees' Provident Fund Organisation) invested huge provident fund amounts in IL&FS and their subsidiaries," said a person close to the development. According to sources, the four credit rating agencies have been found to be in violation of the provisions of Section 36 of the Companies Act, which pertains to penalties for fraudulently inducing people to invest. Sources said relying on the credit ratings, many companies invested their provident funds and pension money in IL&FS, totalling more than Rs 9,000 crore, affecting debt funds. This amount is part of the Rs 94,000 crore of unresolved debt at the embattled infrastructure financier. "The auditor and credit rating agencies are a part of the IL&FS crisis," said an official associated with the investigations (said a government official privy to the probe details). "The probe has revealed that they have violated certain provisions of the Companies Act. The government is of the view that stringent action be taken against all those who contributed in the IL&FS crisis." Credit rating agencies had derived comfort from the institutional parentage of IFIN without doing an independent assessment of the company as a standalone entity, sources said. Market regulator Sebi also examined the rating assigned to the nonconvertible debentures (NCDs) of IL&FS, and it pointed out procedural lapses in due diligence by credit rating agencies. These included over-reliance on management submissions in the absence of disclosures by the company to the stock exchange. The regulator observed that rating agencies maintained the rating outlook as 'Stable' in spite of writing in their press releases about multi-notch downgrades in the event of significant deviation from the management's deleveraging plan. Sebi has initiated adjudication proceedings against the three rating agencies -- ICRA, CARE Ratings and India Ratings -- for their failure to exercise proper skill, care and due diligence while rating the securities of IL&FS. IL&FS is being probed by multiple agencies. The SFIO is probing the parent and its subsidiaries for violating the provision of the Companies Act. The Enforcement Directorate (ED) has registered a money laundering case against entities and former key management personnel. The Income Tax (IT) department is also probing the infrastructure financier for alleged tax-rule violations. "The board, based on the forensic and internal assessment reports, found that based on the rating given by these agencies, PFs and pension funds were invested as late as August, 2018 and in some cases there were also instance of rollovers. The board had sought explanation from these agencies to explain their case," said another official. "The PFs invested include those by Army and companies like Mother Dairy." One of the affected parties in this would be the companies which have invested in standalone PFs," the official added.

<u>Amitabh Kant task force proposes policy framework for public-private partnerships and public sector projects</u>

NEW DELHI: A task force on project management led by Niti Aayog chief executive Amitabh Kant has pitched for a dedicated policy framework for public-private partnerships and public sector projects to improve efficiency. It has proposed the formation of a high-level committee to draft the policy framework, oversee its implementation as well as review and monitor existing public-sector projects. Guidelines under the 'National Project/Programme Management Policy Framework' should be made part of all future contracts, it has suggested. The new government is expected to consider the proposal, aimed at creating world class infrastructure. According to the task force, poor project management leads to additional expenditure burden, which crowds out funding for more deserving projects, creates a culture of acceptance of delays and avoidable costs, and results in delayed return in investments. "Structured project management practices would not only (help) maximise limited resources and effectively respond to changing project requirements, but also bring in skills such as scoping, planning, scheduling, risk assessment, team building and quality control for getting complex projects completed with desired quality and budget, and on time," it said. The task force has also recommended a dedicated workforce be developed with expertise in smooth rollout, implementation and completion of all projects, much on the lines of the US and UK, to assist in project implementation. Every government programme should be analysed based on the number of projects and sub-projects, and prioritised according to national importance, amount of investment and impact on the economy and society at large, it said. According to the task force report, since constitution of a nodal body through the legislative framework would take time, the Quality Council of India could undertake remedial measures for projects and schemes in the interim. The task force estimates India will need 70 lakh skilled project managers in the next 10 years.

<u>Under IBC, 378 companies owing Rs 2.5 lakh crore sent for liquidation</u>

NEW DELHI: As many as 378 companies with total creditor claims of Rs. 2, 57,642 crore have so far been sent into liquidation under the Insolvency and Bankruptcy Code till March 31, 2019, latest data from the Insolvency and Bankruptcy Board of India (IBBI) showed. Of these, 64 companies, or more than 16%, had received bids higher than the liquidation value of the assets, but lenders rejected them— not being comfortable with the deferred payments offered by the bidders. These included Lanco Infratech, Nicco Corp, Bharati Defence and Loha Ispaat. Liquidation value is the estimated realisable value of the assets of a corporate debtor if it is liquidated at the beginning of the insolvency proceeding. Based on the liquidation value, creditors to the companies sent into liquidation would on an average recover only 7.1% of their admitted claims. IBBI data also showed that in the 88 cases of successful resolutions under the bankruptcy law since it came to effect in December 2016, operational creditors and financial creditors recovered about 48% of their claims. On those 64 companies that have gone into liquidation even after getting bids higher than the liquidation value, experts said creditors had rejected those offers because of the uncertainty around deferred payments. “In cases of deferred payment plans, the viability is questionable as most of these plans contemplate making payments to lenders through the cash generated from the company," said the head of PwC’s restructuring services, Mahender Khandelwal. Experts also said such decisions by the committees of creditors, controlled mostly by financial creditors, were likely to hurt operational creditors. “In case of resolution plans, the applicants make provisions for operational creditors too so that the business can be revived. In liquidation of an operating company, the biggest losers remain the operational creditors as their claims are much lower in the hierarchy,” said Manoj Kumar, partner and head of M&A, insolvency and transaction advisory team at Corporate Professionals. Such instances could push operational creditors who have a much lower capacity to absorb haircuts than banks into a downward spiral, he added. In case of liquidation, dues of secured creditors and workmen are to be fully paid off before operational creditors, who are usually unsecured, are entitled to any payment.

Banks can use Aadhaar for KYC with customer's consent: RBI

MUMBAI: Banks can use Aadhaar for KYC verification with the customer's consent, the Reserve Bank said Wednesday as it updated its list of documents eligible for identification of individuals. The RBI specifies Know Your Customer (KYC) norms to be followed by banks and other entities regulated by it for various customer services, including opening of bank accounts. "Banks have been allowed to carry out Aadhaar authentication/ offline-verification of an individual who voluntarily uses his Aadhaar number for identification purpose," the central bank said in its amended Master Direction on KYC. In February, the Union Cabinet had approved promulgation of an ordinance to allow voluntary use of the 12-digit unique number as identity proof for opening bank account and procuring mobile phone connection. The ordinance was necessitated as a bill, passed by the Lok Sabha on January 4 but pending in the Rajya Sabha, would have lapsed with the dissolution of the current Lok Sabha. The ordinance gave effect to changes in the Aadhaar Act such as giving a child an option to exit from the biometric ID programme on attaining 18 years of age. The RBI further said that 'Proof of possession of Aadhaar number' has been added to the list of Officially Valid Documents (OVD). For customer identification of individuals, the RBI said those desirous of receiving any benefit or subsidy under direct benefit transfer (DBT), the bank should obtain the customer's Aadhaar and may carry out its e-KYC authentication. For non-DBT beneficiary customers, the Regulated Entities (REs) should obtain a certified copy of any OVD containing details of customer's identity and address along with one recent photograph. "REs shall ensure that the customers (non-DBT beneficiaries) while submitting Aadhaar for Customer Due Diligence, redact or blackout their Aadhaar number in terms of sub-rule 16 of Rule 9 of the amended PML Rules," it added. The amended KYC norms further said for non-individual customers, PAN/Form No 60 of the entity (for companies and Partnership firms - only PAN) should be obtained apart from other entity related documents. The PAN/Form No 60 of the authorised signatories shall also be obtained. Form 60 is required to be submitted by an individual who does not have a Permanent Account Number (PAN). "For existing bank account holders, PAN or Form No 60 is to be submitted within such timelines as may be notified by the Government, failing which account shall be subject to temporary ceasing till PAN or Form No 60 is submitted," the RBI said. However, before temporarily ceasing operations for an account, RE shall give the customer an accessible notice and a reasonable opportunity to be heard, it added.

Niti Aayog plans index to rank states on artificial intelligence adoption

NEW DELHI: Government think tank Niti Aayog is planning to develop an artificial intelligence (AI) readiness index that will rank states on their capacity to adopt the technology for public service delivery and exploit its innovative potential. The index could be among the first few indices that the Aayog will develop in its second term after the successful roll-out of the health, education, water composite index and the agriculture index in the last few years. A senior government official told ET that the Aayog has been aggressively pushing for adoption of AI and it is natural that the outcomes of states' initiatives on AI are assessed. "Hence, the need for an index," the official said, adding that the parameters to rank states could be finalised in some time. The Aayog has been aggressively moving towards outcome-based monitoring and has in the past ranked states on key social indicators, much in line with its role of promoting competitive and cooperative federalism. According to the official, while the Aayog is yet to decide on the indices to measure the states' performance, some of the likely parameters could include digital skills, innovation capabilities and existing data capabilities and management in each state. "The index is likely to even identify challenges for each state in adoption of AI and recommend possible areas of improvement for every state," the official added. Niti Aayog has proposed that India pumps in 7,500 crore initially over a three-year period and set up a high-level task force to oversee rollout of artificial intelligence in the country. A cabinet note to this effect is likely to be tabled soon once the new government takes office. It is estimated that AI has the potential to add $957 billion to India's GDP by 2035 and boost India's annual growth by 1.3 percentage points by 2035 and hence its early adoption has become one of the government's key priority area. Niti Aayog CEO Amitabh Kant has already written to all states and ministries requesting them to identify key projects across the five identified sectors where artificial intelligence can be adopted. The government had in the Union Budget 2018-19 entrusted the Aayog with the responsibility to develop the national programme on AI, following which it had in June last year released the national strategy for AI.

Air India seeks nod for Rs 2,400 crore loan from NSSF

Disinvestment-bound Air India has sought the government's approval to borrow Rs 2,400 crore from National Small Savings Fund (NSSF), a pool of small savings from households, to meet its working capital requirements. The airline, which has seen its total debt ballooning to Rs 58,000 crore, made the request at a meeting on May 14 of all the top bosses of agencies working under the Civil Aviation Ministry. The meeting was chaired by Civil Aviation Secretary Pradeep Singh Kharola. The Aviation Secretary is, however, learnt to have advised Air India to discuss its financial issues separately. "This is fresh requirement beyond what had been approved earlier," said a senior Air India official. Explaining the justification for fresh demand, the official said that the government was to give Air India a financial support of Rs 2,484 crore, the balance of the budgetary support. "This could be provided as a Government of India (GoI) guarantee or in the form of loan. If it gives us guarantee, we can borrow from the bank. In case the support comes as loan, the interest would be directly paid to the government. The NSSF loan is like borrowing from the government and it is about 0.5 per cent cheaper compared to commercial banks," he said. The airline's ever-increasing hunger for loans indicates its precarious financial health. This also raises questions over timing of the airline's disinvestment. But top sources in the government said the disinvestment of Air India would be done in next few months given that it is one of the unfinished agendas of Narendra Modi-led government. "Going at the current pace, the EoI (expression of interest) for the sale of Air India will soon be out. Disinvestment of the airline is now a matter of months," said a senior government official. Meanwhile, the airline has put its expansion plan on hold in the wake of the disinvestment plan. It would not take any new aircraft on lease and network expansion would be done only by making more grounded aircraft operational. Air India is currently surviving on a Rs 30,000 crore bailout plan cleared by the UPA-II government in 2012.

NHB orders home financiers to appoint risk officer

MUMBAI / NEW DELHI: The National Housing Bank (NHB), which regulates home financiers in India, has asked all housing finance companies with more than Rs 5,000 crore in assets to appoint a chief risk officer, citing the need for strengthening risk management practices in the industry. The regulator on Wednesday wrote a letter to these companies, stipulating the responsibilities of this senior executive. ET has viewed a copy of the letter. “The CRO is required to function independently to ensure the highest standard of risk management,” V. Videswaran, general manager at NHB, wrote in the letter. “While the boards of HFCs (housing finance companies) should strive to follow best practices in risk management, it has been decided that HFCs with asset size of more than Rs 5,000 crore shall appoint a CRO with clearly specified role and responsibilities.” Meanwhile, the central bank said late Wednesday that it would create a panel on securitization of loans in the home-financing industry even as HFCs and NBFCs continue to struggle to access funds. A CRO, who will have voting power in credit sanction proposals, should be a senior officer with adequate professional qualifications and experience in the field of risk management. Individual HFC boards can Any transfer or removal must be reported to the NHB, citing reasons. HFCs and NBFCs have been facing a severe liquidity crunch after IL&FS defaults came to light, underscoring the mismatches between assets and liabilities in this sector. “The CRO shall be involved in the process of identification, measurement and mitigation of risk,” said Videswaran. About a week ago, the Reserve Bank of India (RBI) also asked large NBFCs to strengthen their risk management practices, including creation of a CRO role. A CRO would report to the managing director or chief executive officer. “All credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks,” the NHB official said in the letter. Some large HFCs, including Indiabulls Housing Finance, already have the CRO role in their organizational structure. Naveen Uppal is the head of risk at Indiabulls HFC appointed CROs for a fixed tenure. Her/his role in deciding credit proposal will be limited to being an advisor.

IL&FS may soon begin servicing debt of 13 group entities

New Delhi: Infrastructure Leasing & Financial Services (IL&FS) may soon begin servicing the debt of 13 more group entities, in what could be the first step by the infrastructure group to find a resolution to its debt issues. These 13 entities have total outstanding debt of Rs 16,372 crore. In a submission before the National Company Law Appellate Tribunal (NCLAT), IL&FS said it would begin the reclassification process for these companies so that they could make the payments that are currently on hold. All group companies of IL&FS are classified according to their ability to meet payment obligations. Companies that could meet all payment obligations are categorised as ‘green’, while those that could meet only operational payments and senior secured debt obligations are in the ‘amber’ category. The entities that are unable to make any payments are categorised as ‘red’. Currently 55 group entities are classified as ‘green’ and 13 as ‘amber’, while 82 are in the ‘red’ category. Another 11 entities are yet to be classified. IL&FS plans to reclassify the ‘amber’ entities as ‘green’. The NCLAT has given the government and the company time till July 12 to do the reclassification and release payments. IL&FS has agreed in principle to reclassify its group entity Moradabad Bareilly Expressway Ltd (MBEL) as “green”, which will enable it to begin servicing debt obligations, IL&FS counsel Ramji Srinivas told the tribunal. It plans to follow the same process to reclassify the other dozen entities. According to an affidavit filed by IL&FS, the agreement for the reclassification of MBEL as a ‘green’ entity would include some concessions by lenders, including reduced interest rates on loans by some secured creditors as well as permission to release of some cash flows to creditors within the IL&FS group as well as operational creditors of MBEL. Its counsel said IL&FS intended to follow the same process for the rest of the ‘amber’ companies as well. The NCLAT had in October 2018 granted a moratorium on all claims against IL&FS entities to facilitate an orderly debt resolution of the group, which has total outstanding debt of Rs 94,215 crore. The two-member NCLAT bench led by Justice SJ Mukhopadhaya said it might pass “appropriate orders” for the release of payments on a proportionate basis "if one or other 'amber' entities are not declared 'green and if there seemed to be no likelihood of them being declared 'green'". In February, the NCLAT ordered that all 'green' entities begin servicing their debt obligations. IL&FS' counsel had argued at the time that payments by 'amber' and 'red' entities be made only after the resolution process for the entire group was completed. The NCLAT also stressed that the 'amber' companies repay 100% of the amount raised from pension funds and provident fund to protect those investors. Pension and Provident funds have a total exposure of Rs 9,134 crore to the IL&FS group. The case will next be heard on July 12.

SFIO and IL&FS board probing why rating co ignored analyst's concerns

The Ministry of Corporate Affairs (MCA) and the new board at IL&FS are investigating why questions raised by a junior analyst at a rating agency about financial irregularities at the infrastructure financier were ignored by the top management at the creditworthiness evaluator. The junior executive has allegedly told probe officials that when he brought his concerns to the notice of the senior management at the rating agency, the decision makers refused to act upon his findings, claiming the books of IL&FS and related companies were good. The crisis at IL&FS came to light in July 2018, when its roads unit faced difficulty in making repayments due on bonds. Credit rating agencies then started to cut the rating for the group parent, IL&FS, beginning August. "In March, one of the four agencies raised a red flag about the group's elevated leverage but citing the company's track record in the infrastructure sector, it retained the investment grade," said a government official who didn't wish to be named. "In another case, a junior analyst did alert his seniors about the situation in IL&FS Financial Services, but the seniors overlooked and trusted the rosy projection given by the management." The Serious Fraud Investigation Office (SFIO), the investigation arm of the MCA, had questioned officials of rating agencies earlier this year. SFIO is investigating whether rating agencies, entrusted with the responsibility of qualifying and grading the creditworthiness of borrowers, have knowingly suppressed information. Four credit rating agencies --- Care Ratings, ICRA, India Ratings and Brickwork Ratings --- are being probed by the SFIO and the new IL&FS board on the rating action at IL&FS Financial Services Ltd (IFIN). Emails sent to ICRA, CARE Ratings, India Ratings and Brickwork Ratings remained unanswered until the publication of this report. IL&FS group chief communication officer Sharad Goel declined to comment on the matter. "Because of the credit ratings given by rating agencies, EPFO (Employees' Provident Fund Organisation) invested huge provident fund amounts in IL&FS and their subsidiaries," said a person close to the development. According to sources, the four credit rating agencies have been found to be in violation of the provisions of Section 36 of the Companies Act, which pertains to penalties for fraudulently inducing people to invest. Sources said relying on the credit ratings, many companies invested their provident funds and pension money in IL&FS, totalling more than Rs 9,000 crore, affecting debt funds. This amount is part of the Rs 94,000 crore of unresolved debt at the embattled infrastructure financier. "The auditor and credit rating agencies are a part of the IL&FS crisis," said an official associated with the investigations (said a government official privy to the probe details). "The probe has revealed that they have violated certain provisions of the Companies Act. The government is of the view that stringent action be taken against all those who contributed in the IL&FS crisis." Credit rating agencies had derived comfort from the institutional parentage of IFIN without doing an independent assessment of the company as a standalone entity, sources said. Market regulator Sebi also examined the rating assigned to the nonconvertible debentures (NCDs) of IL&FS, and it pointed out procedural lapses in due diligence by credit rating agencies. These included over-reliance on management submissions in the absence of disclosures by the company to the stock exchange. The regulator observed that rating agencies maintained the rating outlook as 'Stable' in spite of writing in their press releases about multi-notch downgrades in the event of significant deviation from the management's deleveraging plan. Sebi has initiated adjudication proceedings against the three rating agencies -- ICRA, CARE Ratings and India Ratings -- for their failure to exercise proper skill, care and due diligence while rating the securities of IL&FS. IL&FS is being probed by multiple agencies. The SFIO is probing the parent and its subsidiaries for violating the provision of the Companies Act. The Enforcement Directorate (ED) has registered a money laundering case against entities and former key management personnel. The Income Tax (IT) department is also probing the infrastructure financier for alleged tax-rule violations. "The board, based on the forensic and internal assessment reports, found that based on the rating given by these agencies, PFs and pension funds were invested as late as August, 2018 and in some cases there were also instance of rollovers. The board had sought explanation from these agencies to explain their case," said another official. "The PFs invested include those by Army and companies like Mother Dairy." One of the affected parties in this would be the companies which have invested in standalone PFs," the official added.

PNB to mop up Rs 10K crore from non-core asset sale, rights issue, write-back

Mumbai: State-owned Punjab National Bank is looking to raise Rs 10,000 crore in 2019- 20 from sale of non-core assets, rights issue and expected write-backs from two large accounts undergoing insolvency proceedings. The lender is expecting a write-back of Rs 4,000 crore from Essar Steel and Bhushan Power and Steel which are undergoing resolution under the Insolvency and Bankruptcy Code. "For FY20, we are looking to raise Rs 10,000 crore. We are expecting Rs 1,000 crore from sale of non-core assets, Rs 4,000 crore write-back (from) two accounts (Essar Steel and Bhushan Power and Steel) and Rs 5,000 crore from markets," the bank's managing director and CEO Sunil Mehta told reporters. The bank expects to raise Rs 600 crore from sale of its erstwhile headquarters, situated at Bhikaji Cama Place in South Delhi, to the income tax department. The deal is in the final stage. It is also planning to raise Rs 400 crore by selling some real estate properties. Mehta said the lender would raise Rs 5,000 crore through rights issue or qualified institutional placement (QIP) route. The bank has set a recovery target of Rs 20,000 crore in the current financial year. In 2018-19, its recovery more than doubled to Rs 20,000 crore from Rs 9,666 crore in 2017-18. The bank narrowed its loss by nearly 65 per cent to Rs 4,750 crore during the fourth quarter of fiscal ended March 2019. Its net loss was at Rs 13,417 crore in the same quarter of 2017-18. Gross non-performing assets (NPAs) improved to 15.50 per cent from 18.38 per cent at the end of March 2018. Net NPAs also came down to 6.56 per cent as against 11.24 per cent in the year-ago period.

Patanjali seeks PSU bank funds for Ruchi Soya buy

MUMBAI: Patanjali Ayurveda has approached state-run banks to help fund its Rs 4,350 crore acquisition of Ruchi Soya Industries, said people with knowledge of the matter. The company is looking to raise debt with a maturity of five years and above from State Bank of India, Punjab National Bank, Bank of Baroda, Union Bank and Jammu & Kashmir Bank, they said. The home grown consumer goods company is tying up with the banks to raise more than Rs 3,700 crore while Rs 600 crore will be generated through internal accruals. "The funding is in the final stages of negotiation and the interest rates will be finalised soon," said one of the persons. "Patanjali had earlier approached several nonbanking channels but it backtracked after these investors sought high level of disclosures." Patanjali, SBI, PNB, Bank of Baroda, Union Bank and J&K Bank did not respond to queries.

COMPANY INCREASED BID VALUE IN APRIL

Patanjali acquired Ruchi Soya in an insolvency auction held by lenders seeking to recover more than Rs 9,300 crore. Among financial creditors, SBI had the maximum exposure of Rs 1,800 crore, followed by Central Bank of India (Rs 816 crore) and PNB (Rs 743 crore). Adani Wilmar, which emerged as the highest bidder in August last year after a long-drawn battle with Patanjali, had in December 2018 written to the resolution professional regarding significant delays in the insolvency process that led to the deterioration of Ruchi Soya's assets. Patanjali, the lone bidder in contention after the exit of Adani Wilmar, had in April increased its bid value by around Rs 200 crore to Rs 4,350 crore. This excluded a capital infusion of Rs 1,700 crore into the company. With the acquisition of Ruchi Soya, Patanjali will become a key producer of soyabean oils and other products. The deal is expected to help Patanjali maintain its earlier growth momentum.

MFIs with Rs 3000 crore loans on Federal Bank radar for acquisition

Private sector lender Federal Bank has renewed its effort to acquire a micro finance company with an asset size of about Rs 3,000 crore. For the Federal Bank chief executive Shyam Srinivasan, this is a second attempt to get into micro lending after its earlier attempt to buy the Chennai-based Madura Microfinance failed. Microfinance business has gained stability, setting aside the funding woes with banks backing micro lenders. Raising capital as well as getting strong promoters to back growth have been two of the main challenges for most small and medium sized entities, making them ideal candidates for acquisition. “We are looking at microfinance companies with Rs 2000-3000 crore portfolio and with concentration in one geography,” Srinivasan told ET, adding that three-four MFIs are on the bank’s radar. From IndusInd Bank to RBL Bank, lenders are tapping the inorganic route to grow rural footprint, especially in the high-yielding micro loan segment. IndusInd Bank is in the final lap of completing its acquisition of the country’s largest MFI Bharat Financial Inclusion while Kotak Mahindra Bank had acquired BSS Microfinance in 2016. Federal Bank, the Kerala-headquartered lender, is also exploring technology-based solutions to cater to the bottom of the pyramid customers since its acquisition plan is taking longer time to take shape. The ecosystem of microfinance business is changing rapidly with several micro lenders also working as business correspondents for banks in parallel to preserve capital and grow their off-balance sheet exposure. Federal Bank is seeking opportunity here and is trying to get into micro lending through tech-driven arrangements and tie-ups with business correspondents. “The technology is scalable for onboarding different BCs for different geographies,” the bank told analysts after announcing financial results. The private sector lender is comfortably placed with 14% capital adequacy ratio. “We would not require capital in the next six to eight quarters,” Srinivasan said. “The bank is well capitalized and we have good credit quality. This makes us sitting in the right quadrant to grow faster,” the CEO said. The bank’s gross non-performing assets ratio was at 2.92% while the net ratio was at 1.48%. Its gross advances grew 20% last fiscal to Rs 1.12 lakh crore.

Hero FinCorp may buy Reliance General Insurance

MUMBAI: Hero FinCorp, the retail lending arm of Hero Moto-Corp Ltd, is in advance talks to buy Reliance General Insurance (RGI) from Reliance Capital at Rs 5,500-6,000 crore valuation, as Anil Ambani continues to deleverage his group balance sheet, said several people aware of the discussions. This is part of Reliance Capital’s efforts to reduce its Rs 18,000 crore debt. With the sale proceeds of general insurance and mutual fund businesses, it expects to bring down debt to Rs 9,000 crore. Reliance General Insurance is a 100% owned subsidiary of Reliance Capital. Reliance Capital did not comment on the story. “The quality of our general insurance business is top class, and we are presently in exclusive discussions covered by a NDA (nondisclosure agreement) with a strategic buyer, and cannot comment further,” Reliance Capital chairman Anil Ambani had said in an interview to ET earlier this week.

TALKS FOCUSSED ON A TOTAL SALE

Even though Reliance was initially looking at divesting a 49% stake in the business, the talks are now focussed on a total sale. But it is not clear if Ambani would keep a small minority stake and stay on as a junior partner. The due diligence process is ongoing, added the people mentioned above. The strategic sale may also gain precedence over IPO plans. Reliance General Insurance had filed for a share sale in February after the deadline for its previous IPO plan lapsed. Hero FinCorp, which has Chrys-Capital as one of its financial backers, has parallelly initiated a fund-raising exercise by mandating Credit Suisse. The company said it does not want to comment on market speculation. Hero had unsuccessfully tried to tie up with Ergo for a life insurance company licence. Last year, Hero Enterprise entered insurance broking business to sell life and general insurance products and distribute products to their manufacturing and automobile segment. Hero has been scouting for opportunities across the financial services sector for growth. Recently, Blackstone pipped it at the last minute to acquire Aadhar Housing from the Wadhawan Group. Hero is also believed to be in discussions with Kishore Biyani for his stake in Future Generali and Max Bupa. As on November 2018, Hero Fin-Corp had an asset under management of Rs 17,400 crore. It has capital adequacy of 18.3% till last year. Its portfolio grew at a CAGR of 64% during FY2015-18 with most of the expansion coming from segments outside the parent’s ecosystem. The company has expanded its portfolio from bill discounting and two-wheeler financing to include loan against property, small and medium enterprises financing, and personal and used car loans. During FY18, the company reported a profit after tax of Rs 162.5 crore on a total asset base of Rs 13,747.6 crore. Among the fastest growing NBFCs, Hero FinCorp is led by Abhimanyu Munjal, the younger son of late Raman Munjal, elder brother of Pawan Munjal. Abhimanyu’s elder brother Rahul Munjal runs Hero Renewable Energies Pvt. Ltd. These businesses are seen as the New Delhi-based group’s attempts to diversify into other fast-growing businesses to accommodate third generation family members in the group’s business. Incorporated in December 1991 as Hero Honda Fin-Lease Ltd, the Hero Group restructuring led to its present form. Currently it is present in close to 2,000 retail financing touch-points across Hero MotoCorp's network.

DELEVERAGING DRIVE

Reliance Capital’s share price has fallen to Rs 130 from Rs 230 since January 1— a drop of 43% — due to crisis in the NBFC sector and company’s indebtedness. Two of its subsidiaries — Reliance Home Finance and Reliance Commercial Finance — have defaulted on debt obligations. Rating agencies have downgraded Reliance Capital citing delay in disinvestment, fructification of deal and depletion of liquidity. The NBFC sector is affected by IL&FS defaults and is facing liquidity crisis. Last year, the company grew 22.31% to Rs 6,191 crore, faster than the market growth of 12.91%. The company has a market share of 3.64% in terms of gross written premium. It has reported profit of Rs 165 crore in 2017-18. Gross written premium for FY18 stood at Rs 5,122 crore, up 28% from the previous year. RGI had over 130 branches and 29,600 agents as of March 2018. The insurer’s combined ratio — claims paid versus premiums collected — improved to 106% in the September quarter from 109% in the year earlier.

PE INTEREST

Private equity investors have been buying stakes in both life and health insurance businesses, seeking to take advantage of a potentially massive market in the world’s second-most populous country. Apart from that, the Indian government wants to ensure health cover for people belonging to economically weaker sections of the society who find it difficult to pay for the treatment they need. Recently, True North bought 51% stake in Max Bupa. Safecrop Holdings—a consortium of West-Bridge AIF, Rakesh Jhunjhunwala and Madison Capital — has acquired Star Health & Allied Insurance Co. Similarly, Warburg Pincus purchased a stake in India-First Life Insurance and ICICI Lombard General Insurance. The general insurance industry has grown at 16-17% over the last 10 years and is attracting strategic as well as private equity investors. Many companies are open to the idea of merging or getting a new partner to achieve scale and grow further. The general insurance arm of the company had filed for a share sale in February after the deadline for its previous Rs 1,500-2,000-crore IPO plan lapsed.

Biggest Indian bank sees opportunities in shadow loan crisis

India's largest lender is hoping to capitalize on the country's shadow banking crisis by building its mortgage and small business loan book as the non-banks are forced to pull back. State Bank of India, which is slowly emerging from a period of massive provisioning on loans to large corporates like Essar Steel India Ltd., sees opportunities in taking business from the shadow banks without creating new asset quality problems, according to Chairman Rajnish Kumar. "We are not shying away from any business but that does not in any manner mean that we are going to dilute our underwriting standard," Kumar said in an interview. "And I believe there is sufficient business that meets our underwriting standards." India's shadow lenders have been under pressure since last year, when a series of defaults by Infrastructure Leasing & Financial Services forced the government to intervene and exposed weaknesses in the sector. The crisis has forced non-banking financial companies to sell assets and restrict new loans, giving state-owned lenders an opportunity to claw back market share they have lost over the past decade. Kumar said SBI's strong capital gives it the leeway to seek more mortgages and small business loans, which had been a focus for the NBFCs before the crisis erupted. That should help the bank attain its target of 11% loan growth for the year to March 2020, Kumar said, slightly lower than the 12% growth of the previous fiscal year. Privately-owned banks are also showing greater caution, providing another opportunity for SBI, Kumar said. "In a situation where many private sector banks have become very, very cautious, it has opened up lot of headroom available for corporate credit growth for the bank," he said. Home loans and other consumer lending accounted for 6.48 trillion rupees ($93 billion), or 32.5%, of SBI's total domestic lending as of March 31. Advances to companies in India accounted for another 43% of the book, while SME lending was 14.5%.

Government Measures

Despite seeing opportunities in the problems faced by shadow lenders, Kumar said the government needs to take steps -- such as providing partial credit guarantees to the NBFCs -- to prevent wider damage to the economy. The loans provided by India's shadow banks can't fully be substituted by the regular banks, he said. SBI had outstanding loans to NBFCs of 1.87 trillion rupees at the end of March, the majority of which were backed or owned by the central and state governments or by large private sector institutions. "We recognize that NBFCs were a good conduit for credit growth, and incremental lending has slowed down," Kumar said. The banks are unlikely to resume lending to weak NBFCs unless the government provides backstop measures such as partial guarantees, he said. If SBI or other banks are required to provide such loans "then probably lenders will be looking for some comfort from the government," Kumar said.

No mass job cuts, freshers to get 20% more from next year, says Cognizant

BENGALURU: Cognizant is looking at trimming its top-heavy pyramid but is not planning mass job cuts and has raised salaries for campus graduates next year by nearly 20%, the company's chief financial officer said. The Teaneck, New Jersey-headquartered company slashed its revenue growth guidance earlier this month and said it was looking at cutting jobs to reduce costs. The company now expects 2019 revenue to grow 3.9-4.9% in constant currency terms. It had previously forecast a growth of 7.0-9.0% for the year. "Our pyramid is top-heavy. This does not mean there will be layoffs of thousands of people but there are quick actions that we can take," Karen McLoughlin, chief financial officer at Cognizant, told analysts at a conference in New York. Cognizant, whose headcount addition had outstripped revenue growth in the fourth and first quarters, will also pare hiring going forward to bring it in line with revenue growth. Even as the company is taking steps to cut costs, McLoughlin said it was also focused on bringing in skilled talent. "We just announced this in India, for next year's graduating class we are taking wages up 18% and will have industry-leading pay," McLoughlin said. Fresher salaries have not increased substantially in over five years, even though companies are focused on paying more for niche skills from top universities. She added that the company was also looking at its variable compensation procedures to offer existing employees an ‘upside.’ Under new CEO Brian Humphries, who took over at the beginning of April, Cognizant will also look at ensuring it has a wider pool of clients. McLoughlin said about two-thirds of the company’s slashed revenue forecast could be attributed to five healthcare clients — four of whom were going through mergers, while the fifth was in sourcing its IT spend. “There is a need to broaden the portfolio of clients. We can’t be in a position where one or two clients blink and it hits the quarter,” McLoughlin said.

Not in position to release financial results: Jet Airways

Mumbai: Grounded carrier Jet Airways on Thursday said it won’t approve its annual financial results for FY19, given the ongoing search for a new investor as well as the massive attrition in its board and top management. “This is to inform that, in view of the ongoing bidding process undertaken by the domestic lenders for change in management of the company, coupled with resignation by members of the board of directors, its key managerial personnel and other employees across functions, the company is not in position to consider and approve the audited financial result for the Year ended 31 March 2019,” the airline said in a filing to the exchanges. On May 17, the airline’s board became dysfunctional after Etihad Airways’ representative Robin Kamark resigned, the fourth director to quit in less than a month, leaving it with only two members. The board of a publicly listed company requires a minimum of three members, according to capital market norms. Kevin Knight, Etihad’s other representative, resigned on March 25, along with founder Naresh Goyal and his wife Anita Goyal. Jet announced the resignation of whole-time director Gaurang Shetty on May 9. Two independent directors – former bureaucrat Nasim Zaidi and businesswoman Rajshree Pathy – had put in their papers in April.

Trai begins review of interconnection level for fixed line networks

The Telecom Regulatory Authority of India (Trai) Thursday initiated a review of interconnection level for fixed line networks. Releasing a consultation paper on 'review of the regulatory framework for Interconnection', the telecom regulator said interconnection is the lifeline of telecom services, and that a smooth interconnection regime is key to harmonious growth of fixed line services. "Through the present consultation paper (CP), the authority is undertaking a review of level of Interconnection for fixed line networks," Trai said. Put simply, the term 'interconnection' refers to the commercial and technical arrangements under which telecom service providers (TSPs) connect their equipment, networks and services to enable their subscribers to have access to the users and networks of other operators. "TRAI had issued 'The Telecommunication Interconnection Regulation, 2018...dated January 01, 2018 on Interconnection agreement, bank guarantee, provisioning and augmentation of port at POIs (points of interconnect), interconnection charges, disconnection of POIs and financial disincentive on interconnection matters," the regulator said in a statement. However, on the issue of review of the Level of Interconnection the authority had observed that there is a need for further deliberations, it added. "The present consultation paper is proposed to address the issue of fixed to fixed Point of Interconnection," the statement said. The Trai has sought take-holders' comments on specifically identified issues related to fixed line interconnection by June 27 and counter comments by July 11.

Trai begins review of interconnection level for fixed line networks

The Telecom Regulatory Authority of India (Trai) Thursday initiated a review of interconnection level for fixed line networks. Releasing a consultation paper on 'review of the regulatory framework for Interconnection', the telecom regulator said interconnection is the lifeline of telecom services, and that a smooth interconnection regime is key to harmonious growth of fixed line services. "Through the present consultation paper (CP), the authority is undertaking a review of level of Interconnection

for fixed line networks," Trai said. Put simply, the term 'interconnection' refers to the commercial and technical arrangements under which telecom service providers (TSPs) connect their equipment, networks and services to enable their subscribers to have access to the users and networks of other operators. "TRAI had issued 'The Telecommunication Interconnection Regulation, 2018...dated January 01, 2018 on Interconnection agreement, bank guarantee, provisioning and augmentation of port at POIs (points of interconnect), interconnection charges, disconnection of POIs and financial disincentive on interconnection matters," the regulator said in a statement. However, on the issue of review of the Level of Interconnection the authority had observed that there is a need for further deliberations, it added. "The present consultation paper is proposed to address the issue of fixed to fixed Point of Interconnection," the statement said. The Trai has sought take-holders' comments on specifically identified issues related to fixed line interconnection by June 27 and counter comments by July 11.

NEWS OF THE WEEK

Large retailers wooing kirana stores with PoS machines 2.0

Large retailers actively courting the smallest of kiranas now have a new allurement — point of sale (PoS) machines. Reliance Retail has been testing a PoS project with 1,200 mom-and-pop outlets in Ahmedabad for the past couple of months. In Lucknow, US giant Walmart is also piloting the Kirana Development Programme, testing its own PoS machines with about three dozen small stores that the world’s largest retailer plans to scale up to 500, according to multiple sources. Rival Metro Cash and Carry of Germany, that started its own PoS pilot with 100 traditional stores in Bengaluru and Hyderabad more than a year ago, has plans to “aggressively scale up” its PoS initiatives, said chief executive Arvind Mediratta. The PoS machines from Reliance and Walmart can be used for scanning barcodes, billing and printouts, swiping credit or debit cards, placing bulk orders from the retailers’ cash and-carry outlets and even calculating goods and services tax for the small merchants. The humble PoS machine is well and truly on its way to becoming the latest arsenal in the big retailers’ fight to enlist kiranas. Big retailers see the touch-screen PoS as the first step of digital empowerment of kiranas without burdening them with the costs associated with technological upgrade. For example, Reliance’s Android based PoS that comes with Jio connection is given for a refundable sum of ?3,000. “This is a devise to help digitize the small merchants. They can accept any kind of card payment, manages their accountings and inventories,” a person familiar with Reliance’s PoS said. Kiranas are on the forefront of India’s evolving retailing landscape where ecommerce companies from Walmart-owned Flipkart to Amazon are courting mom-and-pop stores for various roles, ranging from last mile delivery agents to even making kiranas sell products from online companies. Reliance, that is expected to roll out its high-profile ecommerce venture, that seeks to marry the company’s offline stores with the digital network of Jio, also plans to enroll millions of kiranas as business partners and last mile delivery agents. The Ahmedabad PoS trial is part of Reliance’s kirana outreach initiatives.

ARTICLE OF THE WEEK

Why India must expand the scope of the two-year-old Maternity Bill

We are today a couple of days into the euphoria surrounding the stronger comeback of the incumbent government. It seems as though the entire nation is on the brink of an upbeat, positive momentum, while the government is set to re-ignite its reforms agenda. It seemed the perfect time to articulate my thoughts on how, over the course of the next five years, India needs to focus on reaping its demographic dividend by rethinking landmark policies it put in place. Early childcare investment for the economy I specifically speak of the 160 million children under the age of five - a number that the CWA (Children and Women Welfare Association) reported as part of their effort to put together early childhood framework. Well invested into, these children will be the one that take India into the future as the strongest economy. China fell back with its one child policy - most of Europe saw de-growth in its population in the last two decades and have corrected for it in the last 5-6 years. India's opportunity lies in two key areas and if we get this right, we are in a position to ride on short-term and long-term benefits to the economy through two generations' incomes (Ref Professor Heckman's research on 0-3 advocates). First is: with mothers entering the workforce - an immense opportunity given India's low women workforce participation at 24% and second, with children getting high quality childcare in the early years them gaining the right skills to succeed in school and life.

Relooking laws in the new, urban context

I am not one to advocate that the mother's involvement in the early years is not critical - without a doubt there are biological and emotional benefits of the mother staying with the child in the first six months and the baby being breastfed. I however would argue that today urban parents don't have the "village" that helps them raise the child appropriately. There isn't a handbook on how to provide the right care and education in these early years and a lot of urban parents have single children - just the pressure of costs and the need for the woman to take more time off from the workforce. We are yet to fully comprehend the ramifications of a child growing up surrounded by adults and not with a peer group from who they learn so much. In this five-year term, the Government must think about how to make their landmark Maternity Bill Amendment Act (MBA) more effective. The MBA was touted and applauded as among the most liberal acts putting India in the top three position for maternity benefits. The bill in its intention was right - it allowed mothers to stay home for six months with their child in the crucial period, provided for adoption and surrogacy and provided for one of the most critical fall off criteria for women - credible childcare/ creche provisions.

Food for thought: a potential way ahead

As we have seen close to two years later the bill has some more work for it to serve the true intent with which it was set up - to enable India to tap into the women talent pool. Some of the areas that need to be thought through –

1. **The onus of costs cannot be only on the organization hiring women:**

Could the government think of a voucher system/ subsidies/ tax breaks for organizations complying aka even recent economies like Singapore have done.

2. **Could we think of the bill as a parenting bill as against a maternity bill?**

The data has played itself out that organizations are shying away from hiring women as today the "cost" of having children is singularly loaded on the mother – six months of leave and creche provisions. Also in the urban context and given paternal involvement - could this be a family discretion as against a societal diktat that the mother should be the primary provider in these crucial years. Again here several governments worldwide have taken the view that it is a joint responsibility and have introduce parenting bills

3. **Quality parameters for childcare centres and a monitoring body:**

While organizations still grapple with something as simple as the distance of the creche (the MBA states 4 visits for the mother) - there are so many other parameters that need to be defined such as ratios, qualification of staff and overall health and safety measures. The fact that it is 160 million children across socio economic backgrounds and demographics isn't lost on me but by the same measure the biggest investment we could make as a nation so getting this right is critical

4. **Capacity creation:**

An Act that enforces organizations to comply with very few quality providers in the country only adds to the confusion on how to comply. How do we create more human and real estate capacity to enable companies to comply and provide the service.

5. **Right taxation framework for providers:**

Providers are in the GST exempt list (makes the service affordable for parents and truly needed) but have to pay GST on input parameters like rent and fit outs - this doesn't help in an industry that is fairly nascent to start with and doesn't have capital flowing into it Paving the path for sustainable women workforce inclusion In this next term of the government it will be great to see sustainable women protection and women workforce participation - something we as a nation will benefit immensely from. We will hopefully be able to put the right set of measures in place to make the MBA meet its objectives and to serve its purpose of creating the dual economic impact of women working and their children being better prepared to contribute to the economy in their adult lives.

MUST READ ITEM FOR THIS WEEK

CIN mismatch doesn't mean companies don't exist, clarifies government

NEW DELHI: Ahead of the release of GDP data for the fourth quarter and full year, the government put up a strong defence of its growth numbers, saying exclusion of companies from the services survey based on their corporate identification numbers (CIN) did not imply that they do not exist. In a fresh clarification issued on Thursday, the government said that of the 35,456 companies included in the 74th Round, 34,834 (86.5%) had filed their returns, as per the ministry of corporate affairs database, and only 622 were untraceable — perhaps due to change of CIN. In a separate clarification, it defended a restructuring exercise of the ministry of statistics and programme implementation (MoSPI). "It is, however, reiterated that findings of the National Sample Survey (NSS) 74th Round field survey will have insignificant impact on the National Accounts Estimates," said a MoS-PI statement. This clarification comes after a statement from the finance ministry on May 10, saying enterprises excluded from the services sector survey were involved in some form of economic activity, making them eligible for inclusion in estimation of gross domestic product (GDP). It had said blowing up of numbers — slight over- or under-estimation — to account for missing enterprises affects GDP level and not year-to-year economic growth rates. "Instead of a blow-up for non-reporting companies, a more scientific estimation of these firms needs to be done. Industry classification is a problem because the memorandum of association at the time of setting a company is different from the actual business. To resolve these issues, census-based data collected in the Annual Survey of Industries should be mapped with the MCA data for a robust dataset," a former NSC member said. As per a technical report on services sector enterprises in India, more than a third of the companies on the ministry of corporate affairs' MCA-21 database and used in computing GDP could either not be traced or were incorrectly classified. In its latest clarification, the ministry said a corporate may have a CIN based on the National Industrial Classification (NIC) code at the time of registration, but may actually be carrying out an economic activity with a different NIC Code. "Very few corporates make efforts to update their CIN with the latest NIC Code. This may lead to mismatch of economic activity in the field vis-à-vis NIC Code embedded in the CIN," it said. The corporate affairs ministry has been weeding out companies that have ceased to operate, with nearly 6.3 lakh entities deregistered in the last few years, it said.

KEEN INSIGHT

The ministry explained that filing returns is a continuous process. For the purposes of National Accounts Estimates, the returns actually filed by companies under MCA are taken into account and the scaling-up factor for paid-up capital in case of non-response is low. "Key findings of this NSS survey give a better insight into challenges that will be faced when the Annual Survey of Services Sector is launched, and assist in designing strategies to address them and improve quality. It is, however, reiterated that the findings of the NSS 74th Round survey will have insignificant impact on the National Accounts Estimates. The government is working to revise the base years for GDP, the Index of Industrial Production and Consumer Price Index. The base year for GDP and IIP is to be revised to 2017-18, from 2011-12, while that for the CPI is to be revised to 2018 from 2012. The new GDP series, released in early 2015, has been under intense scrutiny regarding its accuracy. Economists have argued it does not fit well with high-frequency indicators of growth and activity. Under the new series, GDP growth jumped sharply and made India the fastest growing large economy. The government has argued that growth has increased under the new series on account of a change in methodology and inclusion of new data. Now, the Central Statistics Office also measures GDP at market prices instead of factor costs. As per the new GDP series, GDP growth was 7.2% in 2017-18 (April-March), and is seen declining to 7% in 2018-19.

MOSPI RESTRUCTURING T

he government also justified its decision to merge the National Sample Survey Office (NSSO) with the Central Statistics Office under MoSPI as an “internal restructuring to strengthen the national statistical system while maintaining its autonomy.” It said, “The role and status of NSC remains unaltered and it continues to have the overall responsibility for providing strategic direction and leadership to the national statistical system in MoSPI, line ministries and state governments.” Former members of the National Statistical Commission (NSC) including Pronab Sen have termed the move as one that reduces the NSSO’s autonomy.

VIEW OF THE WEEK

Does the economy need a Jaitley or a Chidambaram?

A recurrent allegation against the Modi 1.0 government is that it did not deliver on economic reforms. The noise on need to ‘reform’ is only getting louder as he gets ready to run the world’s fastest-expanding major economy for the next five years – with a bigger mandate. To be sure, reform means many things to many people. For equity investors, reforms are decisions leading to higher corporate earnings essential for driving stock prices up. If investment activity is muted, they would call for government spending even if doing so is imprudent. This is a crowd that doesn’t bother about inflation. In fact, it would celebrate price rise even without productivity gains. Inflation means higher profits, more dividend and ever rising equity valuations. For bond investors, reform is government being prudent. If it borrows more, it would crowd out private investments. It hates inflation because it lowers the value of bonds. If yields spike, it is bad even for the government because it ends up paying more for its own debt. It also hurts future generations as they end up paying the debt the current generation accumulates. For the corporate world, the burden of compliance should be lesser. Industry chambers forever want lower tax rates on everything from the Audi Q7 to an Atlas bicycle. Curiously, in the name of uniform GST rate, they are demanding the same treatment for goods of essential consumption and those of conspicuous consumption. They always look for concessions for investment and ‘tax-holidays’. During ET’s first Global Business Summit, Prime Minister Modi summed up the attitude well. “If you give something to the poor, it is a subsidy that is bad. If you give something to industry, it is incentive.” For wealthy individuals, it is low or even nil taxation on their investments because they are contributing to nation building. All the investments they make should be tax exempt — be it mutual funds, private equity or start-ups. Unless you do it, the entrepreneurial ecosystem wouldn’t flourish. For giant corporations, government rules must ensure that entry barriers are high. Their argument is that customer service is so important that small companies would lack economies of scale and consumers end up paying higher prices. But the opposite is true. Industries which are dominated by duopoly or oligopoly structure end up squeezing consumers in the long run and the economy loses out. For non-banking finance companies, the Reserve Bank of India is a heartless beast that fails to acknowledge their role in providing livelihood for millions of families. They provide credit to a bunch of less creditworthy borrowers risking their capital; so they should be treated kindly. They are not open to the prudential norms that guide banks but want the regulator to be their lender of first resort. If the administration panders to the demand of all, public policy would end up encouraging crony capitalism rather than creating a level playing field for long run benefits. While fans of John Maynard Keynes would be quick to point out that "in the long run we are all dead", policy makers have to be mindful of that. The Oxford Dictionary defines reform in these words: "Make changes in (something, especially an institution or practice) in order to improve it." Going by this definition, what did Modi 1.0 do? Three institutional changes come to mind:

1) Independence of monetary policy, with the formation of a Monetary Policy Committee that decides on interest rates. The structure frees decision-making even from the Governor, who is appointed by the government.

2) Legislation on bankruptcy. For decades, lenders were at the mercy of borrowers. Now, however, someone who has lent money can take away the assets. That bankers, who were earlier complaining about the lack of such policy support, are not using the mechanism willingly is a signal that the way they do business is changing.

3) Goods and Services Tax. It was a Herculean task that someone as diplomatic as Arun Jaitley (who is out of the race for finance minister now) alone could achieve it. He gave up half his powers by surrendering taxation to the GST Council for a greater good.

Structural changes would not reflect in improvements overnight. These take years to sink into the system and the benefits would be reaped over the years. Like it was when Prime Minister Narasimha Rao opened up the economy in 1991, with local industry complaining about competition. The fruits are there for everyone to see. A finance minister can give direction to an economy and not drive it. Meddling with banks to bring down interest rates and pushing them to lend to projects can give a feeling the government is active, but it would backfire like it did with the UPA government. Jaitley resisted the temptation. Modi-Jaitley combo rarely indulged in headline grabbing stuff that was routine with P. Chidambaram as finance minister. Headlines can be numerous, but what matters is delivering on structural change. The economy may be better off with a Jaitley-like character in the North Block than Chidambaram.

INTERVIEW OF THE WEEK

Rather than economy accelerating, we would be very lucky to stay where we are: Swaminathan Aiyar

If you can sustain 7% over the next five years, that would be a remarkable and exceptional feat. My real fear is that you will probably slip towards 6%, said Swaminathan Aiyar, Consulting Editor, ET Now, in an interview with ETNOW.

Edited excerpts:

Though health issues were a bigger question mark, but Arun Jaitley was a strong contender for Finance Minister's post under NDA-2. Now he himself has opted out for health reasons. What is your view?

If you read the letter carefully he says give me some time to recover. So, he is not saying I am so unwell I cannot be there. What he is saying is for the time being, keep me out. This may result in a situation where some portfolio is given temporarily to somebody else and can be allotted to Mr Jaitley in case he becomes available later. As far the finance itself, yes it will be a blow that he is no longer available as Finance Minister. Let us be clear he himself was not a technocrat. People seem to think that he understood finance but Jaitley was a lawyer like Chidambaram before him. You do not have to be a technocrat to become finance minister. On the other hand, the finance minister is first and foremost a political position and in India close to number one, number two, number three now. It is very close. So, it would be a political appointee, a person with considerable political importance and clout. There is the buzz that it might be Mr. Amit Shah and you might ask what is his experience? The answer is no. He does not have experience of finance but nor did Arun Jaitley earlier. He was just a lawyer so it could be a number of other people as well. If you look at the top brackets, in some sense it could be Mr. Gadkari who is a senior person. It might be Mr Rajnath Singh being moved out from home and Amit Shah going as home minister. But there is no point in having this idle speculation. We are going to have a new person out there. At the end of it all, plenty of technocratic advice is there and the Prime Minister's office has always been important in all the big ideas. I think we will see somebody completely new and that person will not be to speak guiding the finance ministry but being helped along by the PMO, if you can call PMO directives help.

I did not hear you mention Piyush Goyal's name. As per our latest polls at least, it seems like he is the front runner for the new post. But as you said, it is all speculation. What is the view right now in terms of fiscal consolidation? What are the major challenges at hand?

Frankly, if you take away the fall in oil prices, there was hardly any fiscal consolidation in Jaitley's five years. We have ended up in a situation where we do not have the full details of the final deficit of the financial year ending 2019. It may be 3.5-3.6% and there was all kinds of creative accounting, advance payments taken from Container Corporation and all kinds of other dues not paid to various people. So basically, the fisc is not in a good shape while there has been some reduction. I would give most of the credit to the fall in oil prices and not very much to Mr Jaitley's efforts and I suppose it was not helped by the fact that it was an election year and something like PM Kisan had to be announced. Then the question is, where do you go from here? The economy is slowing; every single indicator is pointing downwards. The global economy is slowing and India is slowing with it. So the question arises, will there be some kind of fiscal boost to take this any further? I think that would be a bad idea, There has already been a fiscal boost through PM Kisan. The fact that the fiscal deficit has not been brought down to 3.0% of GDP as promised by Mr Jaitley already means that we are in effect having a fiscal boost over and above our FRPM norms. I hope there is no attempt to kick start the economy because when the world economy is starting to slow, you cannot just grow faster on your own. The question is in which direction do you go? I would say the new finance minister's job has been made easier because there has already been an interim budget and that already sketched out some of the macro contours. Over and above that, indirect taxes are now up to the GST Council and not the exchequer. As far as direct taxes are concerned, on the one hand there is going to be the reduction in corporate tax applying to all companies, something that Jaitley had promised but not delivered. Beyond that, there is a direct tax code and let us see to what extent one or two of those advanced things are there in the budget.

Jim O'Neill had a very radical suggestion. He said that India needs long-term government backed investment which is in a separate P&L to that which is constrained by the fisc. What do you make of that idea? He said if you manage to put through aggressive reforms, you might see India growing at 10% but can India really do that?

When you say this aggressive reform, it is not on aggressive reform which will see results within one year or two years, it will take some time. Yes, you can begin that particular process now, I would be in favour of some of those things. But again this is one of those things on other things equal. If there is a global economy which is slowing, if the proponents of the thesis of secular stagnations are right, then perhaps you would not get to 10%. But could you get better with reforms? Yes. But does this mean radical in a budgetary sense? By and large no. The reforms that we are talking to would be in terms of what you do to the land, labour, capital, education, skilling, all of these things are outside the budget. But yes if we do have radical reforms in these areas, I have no doubt that the economy can accelerate, maybe not to 10% but certainly well above its current rate.

Who do you feel could really push forward that reform agenda even if like you said, it is coming more from the PMO?

Gadkari would be perfectly competent finance minister and if he is chosen, there would be a lot of cheer from the market. A very long short would be Dharmendra Pradhan who I think has also done quite a good job at the petroleum ministry although he perhaps is not considered senior enough. Piyush Goyal was an interim person presenting a temporary thing. I do not think he is senior enough in the party hierarchy to become finance minister, which should be number two or three. After all, it just only recently that he became a full cabinet minister and it would be difficult to say that he has yielded something very fast in this short period. I doubt whether Piyush Goyal would be the… unless once again he is given temporary charge hoping that Jaitley gets better and he comes back at a later stage. But I would say Gadkari would be regarded well by the markets. And beyond that, if I might throughout a wild idea, why not bring Sushil Modi, the Finance Minister of Bihar to become the next finance minister? After all he has been head of the GST council. He has been finance minister in Bihar for so many years. Actually he has a good claim to displace Nitish Kumar as chief minister after the latest elections. But since that is not going to happen, why not bring Sushil Modi to the centre to be finance minister? There is equally a proposition that maybe Shivraj Singh Chouhan might be brought over to the centre. So among the candidates for the next finance minister, I think we also have to look from outside Delhi to the states. Going forward do we have all the ingredients in place for India to look nowhere but up? Are there any risks in sight? I would say rather than look forward to acceleration, we would be very lucky to stay where we are. Basically, the signals of the global economy is of slowdown. You will have to run faster than ever to stay where you are. If you can sustain 7% over the next five years, that would be a remarkable and exceptional feat. My real fear is that you will probably slip towards 6%. So there is no magic wand, there is no silver bullet. The government is going to get some dividend from the earlier reforms, the IBC, the GST. Some of these things are going to yield fruit which will come at this particular point of time. The other thing is the pay commission reward was a big hit and the impact of that goes down year by year afterwards. These are some things which will yield long-term dividends but over and beyond that, we need long-term reforms especially in things like land, labour and capital right. Without that you are not going to be internationally competitive and if you are not internationally competitive, you are not going to be able to increase exports and if you are only dependent on domestic demand and not getting a boost from foreign demand, I am afraid you are headed for 6% growth.

INTERESTING TO KNOW THIS WEEK

Pakistan's rupee is close to becoming the month's biggest loser

Pakistan's rupee is vying for the title of the world's biggest loser this month, the victim of an apparent devaluation with more pain ahead. The managed-float currency dropped more than 5 per cent in May and breached 150 per dollar, after the government agreed to another bailout by the International Monetary Fund that recommended a market-determined exchange rate. The central bank had devalued the currency five times last year. "This knee-jerk reaction of the market will continue," said Kaiser Bengali, an economist who has helped previous governments in multiple roles including as the designer and first head of the cash-based social support program in 2008. "Given our large deficit and high debt ratio, the rupee will continue to decline. The rupee will be 200 a dollar by year-end."

Pakistan's economy is going through a familiar boom-and-bust cycle; debt is soaring, inflation is rocketing, and reserves are falling after a deficit blowout. The IMF has long advocated Pakistan to loosen its grip on the rupee, and estimated the real exchange rate was overvalued by as much as 20 per cent in 2017. The central bank did not immediately respond to a request for a comment on the rupee's performance. Earlier this month, it said the rupee level reflects demand and supply conditions in the foreign-exchange market, and that it will help in correcting market imbalances.

Record Low

The rupee closed at 149.64 per dollar on Wednesday, according to the central bank. It touched a record-low 152.525 last week, according to data compiled by Bloomberg, and is among the worst performers globally in May together with currencies from Zambia and Haiti. The rupee has now erased almost a third of its value in the past 12 months. The central bank still intervenes but the currency is now more determined by market forces, according to three foreign-exchange dealers who requested not to be named since they are not allowed to speak publicly.

Here are other comments on the rupee:

USAir Younus, South Asia director at Washington-based consultancy Albright Stonebridge Group LLC.

"It seems that the rupee's value is still being managed, but the State Bank of Pakistan is not allowing imbalances to build up. The decision has been made to not allow the currency to remain overvalued for a long period of time." "I expect the central bank to be measured in its approach and intervene only when it's absolutely necessary. The pressure on the rupee will continue and the central bank will allow it to depreciate further in the coming weeks."

Ahmed Ateeq, head of treasury at Pak Brunei Investment Co. in Karachi

The dollar/rupee is at a realistic level for the first time in two years "We are close to real effective exchange rate" that is a benchmark used by the IMF The rupee will hover around 150 for now but we may see a 5 per cent-6 per cent drop by year-end that is normal for a nation like Pakistan

Shahid Ali Habib, chief executive officer at Arif Habib Ltd. in Karachi

Rupee is "very much fairly valued" so it is unlikely to see further devaluation The currency will be more market driven, so there may be a bit more volatility on demand and supply though it will stay near this level "When you go into IMF program, the central bank does not deploy its reserves to manage the currency. They will intervene to stop any speculation."

INTERNATIONAL NEWS THIS WEEK

MTN, Barclays Bank & JUMO to launch mobile savings product in Zambia

Mr. Edmund Barwuah

Barclays Zambia, MTN Zambia (a telecom and financial technology company) and JUMO (an inclusive mobile financial services marketplace) have partnered for the launch of short term mobile saving product- KASAKA. Barclays Zambia will facilitate the availability of KASAKA to MTN's Mobile Money users, will be funding the interests to the customers and will handle all the treasury management functions. "We believe that with close to two million active MTN MoMo customers and 30,000 agents, KASAKA will become an important avenue for subscribers to harness the benefits of savings. We consider taking financial services to the previously unbanked a huge responsibility that demands constant innovation and this forms the basis for our long-standing partnership with Barclays Zambia and JUMO." said Edmund Barwuah, MTN Mobile Money GM. According to Mr. Edmund Barwuah, KASAKA is expected to provide the unserved & underserved segments of the Zambian market with access to a real-time savings product, therefore fueling financial inclusion and encouraging a savings culture. Established in 2014, JUMO is a technology platform for operating inclusive mobile financing services marketplace. JUMO aims to connect small businesses and people with financial opportunity. James Townsend-Rose, Director of Strategic Partnerships: Africa at JUMO, said "We use cutting-edge technology to build and run financial services because, at the core of our business, we're working to advance financial inclusion. JUMO is excited to be a part of adding savings to the financial choices available to Zambians."

Blockchain Credit Partners launches Tokenized High Yield Private Credit Fund

Carlos Domingo, CEO & Co-founder Securitize

Florida-based Blockchain Credit Partners (BCP) have launched their Tokenized High Yield Private Credit Fund with an aim to provide high-yield cash flow payments through lending against secured assets. Securitize, provider of full stack solutions for digital securities, has been selected by BCP for the issuance and lifecycle management of the BCP fund. Apart from this, Securitize's DS Protocol will facilitate future compliant trading of the fund on an authorized Alternative Trading System. Carlos Domingo, CEO & Co-founder Securitize, stated "We fully support the innovation of new financial products that re-imagine the traditional fund industry. Especially products that were previously only accessible to hedge funds or ultra-high net worth clients. Tokenized products running on our DS Protocol will allow funds to trade on regulated marketplaces and provide investors with additional benefits beyond the 7-year lock up model found currently in most private credit funds. The BCP High Yield Fund has been developed with a primary focus on two segments of secured lending namely Autos and Real Estate. The fund has been tokenized using the blockchain and is expected to provide high yield quarterly payments secured by hard assets. Previously, high yield investing was reserved for the ultra high net worth private banking clients or hedge fund investors but BCF Fund tokenization has opened up this investment arena to global investors.

FSS aims for European expansion with next-generation offerings

Ram Chari, Global Business Head, FSS

Financial Software and Services (FSS) has confirmed its expansion plans across Europe, starting with the creation of its regional headquarters in Amsterdam. Apart from this, FSS has been making significant investments in Mainland Europe, in a bid to expand its footprint, enhance customer delivery capabilities and grow market share. According to the supplier, a two-pronged approach has been adopted by them for enhancing its new market profits. This involves collaborating with banks and processors for modernization of legacy technology infrastructure. Apart from this, it includes utilizing its deep payment expertise to collaborate with new fintechs and payment processors for developing payment propositions. Ram Chari, Global Business Head, FSS said. "FSS is a global payment company and Europe occupies a central position in our global expansion strategy. Every aspect of the payments business is changing. and our customers are looking for a reliable partner to navigate the new technology and regulatory headwinds that are impacting the business. FSS, with its deep expertise across the payment spectrum, is a reliable partner for the transformation and delivery of new generation payments." The supplier has also stated that 40% of its investment is aimed at its European expansion strategy. The supplier has identified the range of propositions its aims to offer including the delivery of next stage of 3D Secure, frictionless payment experience, utilization of Voice Commerce and Big Data and many more. Commenting on the company's strategy, Haresh Hemrajani, Regional General Manager – Europe, FSS said, "Our recent successes demonstrate that our solutions are resonating with the market. Our vision is clear, we will further expand our team, deepen our partnerships with customers across multiple European markets and importantly, grow our presence to ensure that we can engage at the front-line in a region which is recognized the world over as a significant player in the shaping of next-generation payments." Recently, FSS and QRails Inc, a financial services provider, have partnered in order to provide strong customer authentication and bring about frictionless payments.

CRM platform Salesforce launches Salesforce Blockchain

Bret Taylor, President and CPO, Salesforce

CRM solutions provider, Salesforce has announced the release of Salesforce Blockchain, a low-code platform designed to share verified and distributed data sets across a trusted network of partners and third parties. Salesforce Blockchain was introduced at Salesforce's fourth annual developer conference, TrailheaDX. Salesforce Blockchain aims to assist companies in the creation of blockchain networks, workflows and applications. It has been built on the open source technology of Hyper ledger Sawtooth. "We help companies build for the future by making breakthrough technology accessible and easy to use—today we are doing just that with Salesforce Blockchain," said Bret Taylor, President and Chief Product Officer, Salesforce. "Now, companies will be able to create new ecosystems and achieve new levels of interconnectivity through trusted partner networks." According to the supplier, by combining blockchain with CRM data, new business processes can be created by companies that revolve around sales, service, marketing etc, thus facilitating the business growth. It enables companies for bringing together authenticated, distributed data and CRM processes. Through the platform, consumers will be able to automate data, build networks with ease and engage third parties through simple authentication. Users of Salesforce Blockchain include Arizona State University, IQVIA, S&P Global Rating and many more. The platform is currently available to select design partners and is expected to become generally available in 2020. Established in 1999 in California, Salesforce is a customer relationship management platform that enables consumers to set up and manage cloud-based CRM applications for sales, service, marketing and more without the aid of IT experts.

The Fallout from Russian Money Laundering Continues to Grow for European Banks

By **Nicholas Larsen***, International Banker*

On April 5, Lars Idermark resigned from his position as the chairman of Swedbank, headquartered in Sweden. Idermark stepped down from his position only a week after the chief executive officer, and previously the supervisor of Swedbank operations in the Baltic states, Birgitte Bonnesen, was fired. The moves come amid sweeping allegations that Sweden's oldest bank was involved in laundering billions of dollars' worth of Russian money. In particular, the lender's Baltic units have been named as being complicit in handling illegal funds from Russia as well as other smaller former Soviet countries. Swedbank is just the latest in a series of European banks that have been fingered for their suspicious activities, in what is gradually revealing itself to be the biggest money-laundering scandal in European banking history. Indeed, a somber picture is now emerging of predominantly Nordic lenders using their Baltic subsidiaries to move hundreds of billions of dollars for Russian oligarchs from former Soviet nations into the European banking system. The likes of Lithuania, Estonia and Latvia have all been implicated in the scandal at one stage or another, with their respective banking systems having developed since the collapse of the Soviet Union at least partly on handling flows out of Russia. Bloomberg Economics puts the figure at a hefty $1 trillion that has migrated out of Russia during the last 25 years. According to Swedish broadcasting company SVT (Sveriges Television), Swedbank misled investigators over suspicious customers. The New York State Department of Financial Services is now in the midst of several investigations into the bank, mostly revolving around €135 billion in funds that are alleged to have come from risky sources. The money was reportedly handled by the bank's Estonian branch from 2008 to 2018, during which time it is believed that due diligence was inadequately performed on Russian clients. After the Swedish Economic Crime Authority (SECA) raided Swedbank's head office, they painted a picture of Swedbank "appearing to have spread misleading information to the public and the market about what the bank knew about suspected money laundering within Swedbank in the Baltic States". US President Donald Trump's indicted former campaign manager Paul Manafort is said to be among those who received funds. But money-laundering suspicions regarding Nordic lenders are nothing new. Indeed, reports alleging foul play date back several years, with compliance workers for Deutsche Bank's US-based subsidiary flagging some $150 billion of transactions that the bank handled for the Estonian unit of Denmark's largest bank, Danske Bank. US-born William Browder, CEO of Hermitage Capital Management, was a major investor in Russia and also came to prominence during the last few years for his allegations of substantial theft from the Russian government, which infamously led to the imprisonment (and death whilst in prison) of his Russian lawyer, Sergei Magnitsky. The scandal has gathered considerable pace, however, since last year when US authorities and local regulators pressured Latvian private bank ABLV to liquidate due to mounting suspicion of money laundering, and the chairman of Malta's Pilatus Bank was charged over money laundering and bank fraud. Further reporting on Danske Bank then blew the scandal wide open, when it was found that the Danish lender had handled more than $200 billion of illicit money from Russia between 2007 and 2015, with its Estonian unit again coming under scrutiny. A worldwide consortium of investigative journalists, meanwhile, uncovered a deep money-laundering network, which came to be known as the Troika Laundromat. In September 2018, Danske CEO Thomas Borgen resigned over the scandal. "Even though I was personally cleared from a legal point of view, I hold the ultimate responsibility. There is no doubt that we as an organization have failed in this situation and did not live up to expectations," Borgen lamented upon his departure. Criminal investigations have now been launched against Danske Bank in the United States, Denmark and Estonia. And fellow Nordic lending giant Nordea Bank is also under the microscope for alleged money laundering. Finnish police will soon decide whether to officially launch a probe into the bank's dealings after a complaint was filed alleging that more than $400 million of illicit funds passed through the institution. The US, meanwhile, is now investigating Germany's biggest lender, Deutsche Bank, on allegations that it has laundered substantial amounts of funds for Russian clients. In particular, Deutsche is reported to have helped process most of the payments from Danske's suspicious transactions. While the bank has admitted that it was a correspondent bank for Danske in Estonia, it has also said that that facility ended in 2015. It is also not inconceivable that US banks themselves may also be caught up in proceedings. According to Maxine Waters, the Democratic chairwoman of the House Committee on Financial Services, who recently addressed chief executives of three of the biggest American banks—Brian Moynihan of Bank of America, James Gorman of Morgan Stanley and Michael Corbat of Citigroup: "Much has been reported about how Deutsche Bank has been a pathway for criminals, kleptocrats and allies of Mr. Putin, to move illicit funds out of Russia. Recent information shows that some of your institutions have also been providing funds of services for individuals or entities that may be engaging in questionable transactions." The CEOs told the congressional hearing of their own investigations into their customers' accounts to detect possible Russian money-laundering activity, with Mr Moynihan and Mr Gorman concluding that they had not detected anything untoward and Mr Corbat stating he "could not comment on ongoing investigations".

Given the spate of serious incidents over the last few years, therefore, the scandal has exposed several weaknesses and inadequacies at the heart of European banking—and perhaps beyond. Danske Bank, for instance, has boosted its employee numbers in compliance, as well as those tasked with monitoring and preventing financial crime. And Nordea stated, "We recognize that our systems in the past may not have been robust enough to counter this sort of financial crime. For that, we are truly sorry." It has also gravely tainted the image and reputation of Scandinavian banks; once thought to be among the cleanest lenders in the world, their operations in the Baltics have proven to be damaging. The share price of Swedbank, for example, has fallen by around 30 percent in the two or so months since its involvement was first revealed to the public. As such, it would seem that Nordic banking is going through some of its toughest times at present. And with investigations far from being concluded, it would not be surprising should things take a turn for the worse before they get better.

One Year On: The Impact of the GDPR on Digital Banking

By **Emma Erskine-Fox***, Associate, TLT LLP*

It's now been just over a year since the General Data Protection Regulation (GDPR) came into effect across the European Union, bringing with it panic, misinformation and scores of emails asking us to consent to stay on mailing lists we'd forgotten we'd signed up to. Despite the Information Commissioner's assurances that the GDPR would not be "the next Y2K", it was hard for businesses not to get swept up in the fear of €20 million fines and catastrophic data breach headlines. The GDPR implications for the financial services sector were undoubtedly significant, and the move towards digitisation and open banking has compounded an already complicated privacy landscape in an industry where trust is crucial. A year after the legislation kicked in, some of the initial fears of huge fines and weekly regulatory audits have been dispelled. But privacy compliance in digital banking remains a key area of concern and continues to impact innovation in the sector.

Privacy as strategy

There is no doubt that the GDPR has brought privacy to the forefront of everyone's minds. By virtue of concepts like data protection by design, what was once an afterthought is now a key part of strategic decision-making in most organisations. It's no wonder that data privacy and security are frequently identified as among the top concerns for boards, given the financial and reputational impact of large-scale breaches such as Equifax, Cambridge Analytica and Marriott. Incorporating privacy considerations from the outset of a project is a key tenet of the GDPR. While this ensures compliance and encourages best practice, an unintended side effect can be projects falling at the first hurdle. In a traditionally risk-averse industry, digital banking decision-makers often view GDPR compliance as a costly and challenging exercise and ultimately something that could obstruct projects further down the line. These reservations can lead to a reluctance to invest and innovation stalling for fear of getting it wrong. But getting privacy compliance right can have huge benefits. Digital and data-heavy industries are centred around consumer trust and in an age where data is a key public concern, one of the best ways to build this trust is to be able to show customers that your data handling practices are robust and ethical. Businesses that can find inventive solutions to privacy challenges are going to be in the best competitive position in the digital banking arena. It is therefore important that data privacy and security continues to be a key part of the digital banking strategy. Changing the perception at board-level to focus on the benefits, rather than the risks, of the GDPR can help to ensure that the role the GDPR plays in decision-making is facilitative, rather than prohibitive.

Security and trust: hand-in-hand?

Although no GDPR compliance journey has been painless, what the GDPR has undoubtedly done is forced organisations to tighten their data handling practices and review their security procedures. At the same time, an increased focus on customer control over their data means that power is being put back in consumers' hands. GDPR data cleansing exercises have also resulted in businesses holding better quality, more relevant personal data. All of this means that the digital banking revolution should be coinciding with a time when consumers are more confident than ever that their data is being treated in the right way. However, we are also living in a time when data breaches are in the headlines every day. The press furore (and occasional fake news) around the GDPR has led to a huge boost in consumers' awareness of their rights and the risks of giving away their data. Privacy has become a mainstream concern for the public and consumer trust is hard to come by. Another challenge for building trust in digital banking is that engaging with banks has historically been seen as simply an everyday necessity. The shift towards digital requires consumers to see banking as something they can engage with on another level and from which they can reap clear benefits. Initiatives like open banking are helping to push this message, but it's a slow burn. Privacy compliance is, of course, crucial, but focussing customer messaging on the benefit to consumers of data sharing and the value exchange can help to drive uptake. Another key part of building and maintaining trust is preparing for the inevitable. Even those organisations with the strongest security measures and the best consumer messaging are never safe from the risk of attack. Hackers are becoming ever more sophisticated and most businesses and consumers now accept that a data breach is not a case of "if" but "when". But often it's not the breach itself, but the handling of it, that can be "make or break" for an organisation's reputation. Digital banking businesses that have robust incident management processes and strong communications teams will be best able to protect their reputation and maintain consumer trust in the event of a security breach.

The role of data ethics

There is an increasing body of work and thought around the subject of data ethics and its importance in the financial services industry. Consumers increasingly want to see the businesses that they interact with taking an ethical approach to the way that they operate, from sustainability to treatment of their people. Data is no different. UK Finance has produced a data ethics paper in collaboration with KPMG which emphasises that financial institutions must be seen as trusted custodians of customer data in order to succeed in the digital space. And it's not necessarily about what not to do with data; businesses should focus on harnessing data to drive outcomes in the interests of customers. Privacy compliance and data ethics are intrinsically linked, but having a data ethics framework enables businesses to distil privacy compliance down into something that consumers can easily understand and relate to, resulting in increased potential for consumer engagement.

Open banking and GDPR: friends or foes?

The concurrence of the GDPR and open banking raises some particularly interesting privacy challenges. Customers are being asked to open up their data at a time when large organisations are under more scrutiny than ever when it comes to their data practices. Consumers have historically been told by their banks that they must never, ever, under any circumstances, share their data. Open banking is a significant shift away from this message and one that has naturally taken some time to bed in. Our research shows that organisations are very much alive to the data concerns surrounding open banking and the clear link between data practices and consumer trust. Half (49%) of survey respondents believed that high-profile data breaches have damaged customer trust in open banking, whilst damage to customer confidence as a result of data loss or misuse was the biggest data-related concern for financial services companies under open banking. The GDPR is not in direct tension with open banking. Open banking is about transparency, handing control back to the customer and ensuring data is shared in a secure manner to the benefit of the customer; all things that are key requirements of the privacy legal framework. But open banking is also new. There is a lack of public understanding about how the technology behind open banking works, which can lead to fear and uncertainty among customers about the use of their data in an open banking context. The challenge for financial services organisations therefore lies not only in balancing GDPR compliance and open banking, but in effective communication with customers that reassures them that their data is in safe hands. Shifting the focus onto the benefits of open banking for consumers, including the privacy and security benefits, will help businesses to overcome the privacy trust hurdle in open banking.

GDPR: a blessing or a curse for digital banking?

The GDPR was never intended to stifle innovation. In the words of Elizabeth Denham, the UK's Information Commissioner: *"Privacy does not have to be the price we pay for innovation. The two can sit side by side."* Consumer trust is critical to the success of digital banking and a large part of building that trust is instilling confidence in how businesses are handling customers' personal information. The GDPR is only a curse if businesses choose to see it that way. It has the potential to be a real facilitator of customer trust in digital banking, but it's important to change the perception of the GDPR as an inhibitor. If decision-makers continue to view the GDPR as an insurmountable hurdle, innovation will stall and digital banking will struggle to move forward. If those with the power to make decisions start seeing the GDPR as an enabler and a way to harness customer data, build trust and gain a competitive advantage, this can pave the way for creative solutions to drive innovation and success in digital banking.

RBI THIS WEEK

Financial Literacy Week 2019

The Financial Literacy Week is an initiative of RBI to promote awareness on key topics every year through a focused campaign. Financial Literacy Week 2019 will be observed from June 3-7 on the theme of "Farmers" and how they benefit by being a part of the formal banking system. Growth in agriculture is necessary for the overall economic growth & finance is an essential enabler for the same. RBI is actively involved in formulating policies that enhance the flow of credit to the farming community. In recent years, the Bank has undertaken several initiatives to strengthen credit delivery mechanism and financial inclusion. In order to build awareness and disseminate financial literacy messages to the farming community, focused content in the form of posters and leaflets have been prepared for dissemination. Banks have been advised to display the posters and content in their rural bank branches, Financial Literacy Centers, ATMs and websites. Further, RBI will undertake a centralized mass media campaign during the month of June on Doordarshan and All India Radio to disseminate essential financial awareness messages to farmers. It is RBI's endeavour to reach out to the farming community and all stakeholders are requested to co-ordinate and make this financial literacy campaign a success.

Sovereign Gold Bond Scheme 2019-20

Government of India, in consultation with the Reserve Bank of India, has decided to issue Sovereign Gold Bonds. The Sovereign Gold Bonds will be issued every month from June 2019 to September 2019 as per the calendar specified below:

S.No.	Tranche	Date of Subscription	Date of Issuance
1	2019-20 Series I	June 03-07, 2019	June 11, 2019
2	2019-20 Series II	July 08–12, 2019	July 16, 2019
3	2019-20 Series III	August 05-09, 2019	August 14, 2019
4	2019-20 Series IV	September 09-13, 2019	September 17, 2019

The Bonds will be sold through Scheduled Commercial banks (except Small Finance Banks and Payment Banks), Stock Holding Corporation of India Limited (SHCIL), designated post offices, and recognised stock exchanges *viz*., National Stock Exchange of India Limited and Bombay Stock Exchange Limited.

The features of the Bond are:

Sl. No.	Item	Details
1	Product name	Sovereign Gold Bond 2019-20
2	Issuance	To be issued by Reserve Bank India on behalf of the Government of India.
3	Eligibility	The Bonds will be restricted for sale to resident individuals, HUFs, Trusts, Universities and Charitable Institutions.
4	Denomination	The Bonds will be denominated in multiples of gram(s) of gold with a basic unit of 1 gram.
5	Tenor	The tenor of the Bond will be for a period of 8 years with exit option after 5th year to be exercised on the interest payment dates.
6	Minimum size	Minimum permissible investment will be 1 gram of gold.
7	Maximum limit	The maximum limit of subscribed shall be 4 KG for individual, 4 Kg for HUF and 20 Kg for trusts and similar entities per fiscal (April-March) notified by the Government from time to time. A self-declaration to this effect will be obtained. The annual ceiling will include bonds subscribed under different tranches during initial issuance by Government and those purchased from the Secondary Market.
8	Joint holder	In case of joint holding, the investment limit of 4 KG will be applied to the first applicant only.
9	Issue price	Price of Bond will be fixed in Indian Rupees on the basis of simple average of closing price of gold of 999 purity, published by the India Bullion and Jewellers Association Limited for the last 3 working days of the week preceding the subscription period. The issue price of the Gold Bonds will be ₹50 per gram less for those who subscribe online and pay through digital mode.
10	Payment option	Payment for the Bonds will be through cash payment (upto a maximum of ₹ 20,000) or demand draft or cheque or electronic banking.
11	Issuance form	The Gold Bonds will be issued as Government of India Stock under GS Act, 2006. The investors will be issued a Holding Certificate for the same. The Bonds are eligible for conversion into demat form.
12	Redemption	The redemption price will be in Indian Rupees based on previous 3 working days simple average of closing price of gold of 999 purity

	price	published by IBJA.
13	Sales channel	Bonds will be sold through Commercial banks, Stock Holding Corporation of India Limited (SHCIL), designated post offices (as may be notified) and recognised stock exchanges *viz*., National Stock Exchange of India Limited and Bombay Stock Exchange, either directly or through agents.
14	Interest rate	The investors will be compensated at a fixed rate of 2.50 per cent per annum payable semi-annually on the nominal value.
15	Collateral	Bonds can be used as collateral for loans. The loan-to-value (LTV) ratio is to be set equal to ordinary gold loan mandated by the Reserve Bank from time to time.
16	KYC documentation	Know-your-customer (KYC) norms will be the same as that for purchase of physical gold. KYC documents such as Voter ID, Aadhaar card/PAN or TAN /Passport will be required. Every application must be accompanied by the 'PAN Number' issued by the Income Tax Department to individuals and other entities.
17	Tax treatment	The interest on Gold Bonds shall be taxable as per the provision of Income Tax Act, 1961 (43 of 1961). The capital gains tax arising on redemption of SGB to an individual has been exempted. The indexation benefits will be provided to long term capital gains arising to any person on transfer of bond.
18	Tradability	Bonds will be tradable on stock exchanges within a fortnight of the issuance on a date as notified by the RBI.
19	SLR eligibility	Bonds acquired by the banks through the process of invoking lien/hypothecation/pledge alone, shall be counted towards Statutory Liquidity Ratio.
20	Commission	Commission for distribution of the bond shall be paid at the rate of 1% of the total subscription received by the receiving offices and receiving offices shall share at least 50% of the commission so received with the agents or sub agents for the business procured through them.

RBI hosts Symposium on 'Developing Vibrant Capital Markets in Emerging Market Economies'

The Reserve Bank of India (RBI) on May 29, 2019 held a Symposium on 'Developing Vibrant Capital Markets in Emerging Market Economies' at its Central Office in Mumbai. Shri. Shaktikanta Das, Governor in his opening remarks highlighted the falling saving and investment rates in the economy and the role that the capital markets can play in arresting this trend. He pointed out that capital markets enable economic agents to pool, price, share and exchange risks. If the markets are liquid, price discovery is efficient and intermediation costs are low, the saving habit in an economy improves. Capital markets also bring long-term benefits from reallocating financial resources efficiently. This ultimately lowers incremental capital-output ratios in the economy and helps boost growth. Dr. Ryan Banerjee, a senior economist at the Bank for International Settlements (BIS) presented the highlights of the report on 'Establishing Viable Capital Markets' of the Committee on the Global Financial System (CGFS) that was co-chaired by Dr. Viral V. Acharya of the RBI and Dr. Li Bo of the People's Bank of China: https://www.bis.org/publ/cgfs62.pdf Dr. Acharya, Deputy Governor, stated that a stable macro-economic environment had been a key driver for growing capital market in India. He suggested that time has now come to enhance market autonomy, strengthen the legal framework for investor protection, and also to make the regulatory regime more efficient and effective so as to deepen domestic institutional base, undertake bi-directional opening to international participation while ensuring macro-prudential stability, and develop complementary markets and supporting market infrastructure. At the symposium, a panel discussion was held on 'What more will it take for Capital Markets in Emerging Markets and Advanced Economies to converge in a Globalised World'. Panelists Dr. John Clark, Federal Reserve Bank of New York; Shri Ridham Desai, Morgan Stanley; Dr. Ryan Banerjee, BIS; Shri T. Rabi Shankar, RBI and Dr. Mridul Saggar, RBI (moderator) were of the view that despite rapid strides by the Emerging Markets, further policy steps as well as a greater autonomous drive by market participants themselves was needed if the markets were to converge with those in matured markets. Their recommendations covered equity, private and government bond markets.

Reserve Bank of India Constitutes Committee on the Development of Housing Finance Securitisation Market

As part of the Statement on Developmental and Regulatory Policies issued along with the First Bimonthly Monetary Policy for the year 2019-20 on April 4, 2019, it was announced that the Reserve Bank will constitute a Committee on Development of Housing Finance Securitisation Market. The mortgage securitisation market in India is primarily dominated by direct assignments among a limited set of market participants on account of various structural factors impacting both the demand and the supply side, as well as certain prudential, legal, tax and accounting issues. For a vibrant securitisation market to develop, it is imperative that the market moves to a broader issuance model with suitable structuring of the instruments for diverse investor classes. At the same time, as the international experience shows, it is critical to address the issues of misaligned incentives and agency problems resulting from information asymmetry problems between the originators and investors in the market, which can exacerbate systemic risk. Thus, a careful design of a robust and transparent securitisation framework assumes paramount significance. With a view to review the existing state of mortgage securitisation in India and various issues constraining market development, and to develop the market further, the Reserve Bank of India has constituted a Committee on the Development of Housing Finance Securitisation Market. The composition of the Committee is as under:

1	Dr. Harsh Vardhan, Senior Advisor, Bain & Co.	Chairperson
2	Shri Chandan Sinha, Addl. Director (Learning & Admin), CAFRAL	Member
3	Shri Sanjaya Gupta Managing Director, PNB Housing Finance Limited	Member
4	Shri Naresh Thakkar Managing Director & Group CEO, ICRA	Member
5	Ms. Pranjul Bhandari Chief India Economist, HSBC	Member
6	Ms. Bindu Ananth Chair & Trustee, Dvara Trust	Member

The Terms of Reference of the Committee are given below:

i. To review the existing state of mortgage backed securitisation in India, including the regulations currently in place, and to make specific recommendations on suitably aligning the same with international norms;
ii. To analyse the prevalent structures for mortgage backed securitisation transactions in India, including legal, tax, valuation and accounting related issues, and suggest necessary modifications to address the requirements of both originators as well as investors;
iii. To identify the critical steps required for standardisation of mortgage backed securitisation practices such as, conforming mortgages, mortgage documentation standards, digital registry for ease of due diligence and verification by investors;
iv. To assess the role of various counterparties, including the servicers, trustees, rating agencies, etc. in the securitisation process and suggest measures required, if any to address the key risks, viz., structural, fiduciary and servicer risks;
v. To recommend specific measures for facilitating secondary market trading in mortgage securitisation instruments, such as broadening investor base, and strengthening market infrastructure;
vi. To analyse the inter-linkages between securitisation and other related financial market segments/instruments and recommend necessary policy interventions to leverage these inter-linkages; and,
vii. To identify any other issue germane to the subject matter and make recommendations thereon.

The Committee shall submit its report by the end of August 2019.

Reserve Bank of India Constitutes Task Force on the Development of Secondary Market for Corporate Loans

As part of the Statement on Developmental and Regulatory Policies issued along with the First Bimonthly Monetary Policy for the year 2019-20 on April 4, 2019, it was announced that the Reserve Bank will constitute a Task Force on development of secondary market for corporate loans. Secondary loan market in India is largely restricted to sale to Asset Reconstruction Companies and ad hoc sale to other lenders including banks, and no formalised mechanism has been developed to deepen the market. A vibrant, deep and liquid secondary market for debt would go a long way in increasing the efficiencies of the debt market in general and would aid in resolution of stressed assets in particular. A well-developed secondary market for debt would also aid in transparent price discovery of the inherent riskiness of the debt being traded. Additionally, such price discovery would spur innovations in the securitisation market as well as invigorate dormant markets such as corporate credit default swaps (CDS). These would in turn provide with early warning signals regarding the riskiness of the debt being held by the banks which would incentivize improving the underwriting and origination standards. Accordingly, the Reserve Bank of India has constituted a Task Force on the Development of Secondary Market for Corporate Loans. The composition of the Task Force is as under:

1	Shri T. N. Manoharan, Chairman, Canara Bank	Chairperson
2	Shri V. G. Kannan, Chief Executive, Indian Banks' Association	Member
3	Shri Bahram Vakil, Founding Partner, AZB and Partners	Member
4	Dr. Anand Srinivasan, Additional Director (Research), CAFRAL	Member
5	Dr. Sajjid Z. Chinoy, Chief India Economist, J P Morgan	Member

6	Shri Abizer Diwanji, Head – Restructuring & Turnaround Services, EY India	Member

The Terms of Reference of the Task Force are to review the existing state of the market for loan sale/transfer in India as well as the international experience in loan trading and, to make recommendations on:

i. required policy/regulatory interventions for facilitating development of secondary market in corporate loans, including loan transaction platform for stressed assets;
ii. creation of a loan contract registry to remove information asymmetries between buyers and sellers, its ownership structure and related protocols such as standardization of loan information, independent validation and data access;
iii. design of the market structure for loan sales/auctions, including online platforms and the related trading and transaction reporting infrastructure;
iv. need for, and role of, third party intermediaries, such as servicers, arrangers, market makers, etc.;
v. appropriate measures for enhanced participation of buyers and sellers in loan sale/transfer; and,
vi. any other matter incidental to the issue.

The Task Force shall submit its report by the end of August 2019.

Real Time Gross Settlement (RTGS) System – Extension of Timings for Customer Transactions

A reference is invited to circular DPSS (CO) RTGS No.492/04.04.002/2015-16 dated September 1, 2015 on ‘Changes in RTGS time window’ and circular DPSS (CO) RTGS No.1926/04.04.002/2015-16 dated February 4, 2016 on ‘RTGS service charges for members and customers - Rationalisation’.

2. It has been decided to extend the timings for customer transactions (initial cut-off) in RTGS from 4:30 pm to 6:00 pm. Accordingly, the RTGS time window with effect from June 01, 2019 will be as under:

Sr. No.	Event	Time
1.	Open for Business	08:00 hours
2.	Customer transactions (Initial Cut-off)	18:00 hours
3.	Inter-bank transactions (Final Cut-off)	19:45 hours
4.	IDL Reversal	19:45 hours - 20:00 hours
5.	End of Day	20:00 hours

3. The time-varying charges for transactions in RTGS from 13:00 hours to 18:00 hours shall be ₹ 5 per outward transaction. The time varying charges structure is as under:

Sr. No.	Time of Settlement at the Reserve Bank of India	Time varying charge per outward transaction

	From	To	(in addition to flat processing charge) (exclusive of tax, if any)
1	08:00 hours	11:00 hours	Nil
2	After 11:00 hours	13:00 hours	₹ 2.00
3	After 13:00 hours	18:00 hours	₹ 5.00
4	After 18:00 hours		₹ 10.00

4. This directive is issued under Section 10 (2) read with Section 18 of Payment and Settlement Systems Act 2007 (Act 51 of 2007).

FINMIN THIS WEEK

Smt. Nirmala Sitharaman takes charge as the Union Minister of Finance & Corporate Affairs

Smt. Nirmala Sitharaman assumed charge as the Union Minister of Finance & Corporate Affairs here today. She was greeted at the office in North Block by Minister of State for Finance & Corporate Affairs designate, Shri Anurag Singh Thakur, Finance Secretary Shri Subhash Chandra Garg and other Secretaries of the Ministry. Smt. Sitharaman is the first woman appointed as the full-time Union Minister of Finance & Corporate Affairs. After assuming the charge, the Union Minister for Finance & Corporate Affairs was briefed on the key initiatives and policy issues by the Secretaries of the different departments of the Ministry of Finance & Corporate Affairs and was apprised of the ongoing issues and the forthcoming challenges facing the Indian economy among others.

BRIEF PROFILE:

Smt. Nirmala Sitharaman has served as the Union Defence Minister since 2017. She is currently a Rajya Sabha Member of Parliament (MP) from Karnataka. In 2014, she was elected as Rajya Sabha MP from Andhra Pradesh. She has also served as the Minister of State for Finance and Corporate Affairs and later the Minister for Commerce and Industry with Independent Charge.

Auction for Sale (Re-Issue) of Government Stocks

The Government of India has announced the Sale (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) 'Govt. of India Floating Rate Bonds, 2031' for a notified amount of **Rs. 5,000 crore** (nominal) through price based auction, (iv) '7.62 per cent Government Stock, 2039' for a notified amount of **Rs. 2,000 crore** (nominal) through price based auction, and (v) '7.63 per cent Government Stock, 2059' for a notified amount of **Rs. 4,000 crore** (nominal) through price based auction. Subject to the limit of **Rs. 17,000 crore**, being total notified amount, the 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 31, 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 31, 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 31, 2019 (Friday)** and payment by successful bidders will be on **June 3, 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

Domestic Demand is Key to Sustaining Growth in China Amid High Uncertainty: World Bank Report

BEIJING, May 31, 2019— China's economic growth has so far remained resilient in the face of high global uncertainty. GDP growth was 6.4 percent year on year in the fourth quarter of 2018 and in the first quarter of 2019, compared to 6.8 percent in the first half of 2018. Growth is projected at 6.2 percent for 2019 and 6.1 percent for 2020. In an external environment that has become less favourable due to slowing global growth and rising trade tensions, China's economy will need to rely increasingly on domestic demand to sustain rapid growth, according to *Managing Higher Uncertainty*, the May 2019 edition of the World Bank's **China Economic Update** released today.

"In response to the growth moderation and less favourable external conditions, the government introduced a fiscal stimulus emphasizing tax incentives," said **Martin Raiser, World Bank Country Director for China**. *"While the central government has fiscal space to further increase spending, if necessary, the additional stimulus should be appropriately funded either directly at the central level or through additional fiscal transfers to the provinces. Higher spending on health, education, and social protection could help boost demand and improve the quality of services, if combined with reforms to increase efficiency."*

Renewed trade tensions contributed to rising financial market volatility in early May. Financial asset prices dropped sharply in response to the US announcement of higher tariffs on imports from China. Amid higher market volatility, the People's Bank of China has maintained a prudent overall monetary policy stance with some targeted easing. Higher bank loans and corporate and government bond issuance led to slightly stronger growth in credit to the non-financial sector in the first four months of 2019. In 2018, lower value-added tax (VAT) rates and import duties, higher export VAT refunds, and slower growth in personal income taxes contributed to a consolidated fiscal deficit of 3.9 percent of GDP. In 2019, new tax and fee reductions and a higher limit for local government on-budget borrowing may lead to a higher consolidated deficit of about 5.9 percent of GDP. Taking into account the expected stimulus, the World Bank baseline projection for GDP growth in 2019 remains unchanged at 6.2 percent. Despite the positive surprise in GDP growth in the first quarter of 2019, net exports are unlikely to provide a sustained boost in the coming months, as new tariffs take effect and global growth slows. The escalation in trade tensions, weaker business confidence, and slower global trade growth, are expected to weigh on investment and exports in 2020, prompting a downward revision to next year's growth forecast.

"Despite being among the global leaders in a number of technologies, China still has significant room for catching up to the aggregate productivity level of high-income countries and can continue to benefit from global integration," said **John Litwack, World Bank Lead Economist for China.** *"Economic prospects both in China and in its trading partners would receive a significant boost from resolving the current trade disputes."*

New International Partnership Established to Increase the Use of Energy Storage in Developing Countries

A global partnership convened by the World Bank Group to foster international cooperation to adapt and develop energy storage solutions for developing countries

VANCOUVER, May 28, 2019 – On the occasion of the 10th Clean Energy Ministerial and 4th Mission Innovation Ministerial, a new international partnership has been established to help expand the deployment of energy storage and bring new technologies to developing countries' power systems. The Energy Storage Partnership (ESP) comprises the World Bank Group and 29 organizations working together to help develop energy storage solutions tailored to the needs of developing countries. Energy transitions are underway in many countries with a significant increase in the use of wind and solar power. To integrate these variable renewable resources into grids at the scale necessary to mitigate climate change, energy storage will be key. The increased use of wind and solar power with storage can help decarbonise power systems; expand energy access; improve grid reliability; and increase energy systems' resilience. The requirements of developing countries' grids are not yet fully considered in the current energy storage market – even though these countries may have the largest potential for battery deployment. The current battery market is driven by the electric vehicle industry and most mainstream technologies cannot provide long duration storage or withstand harsh climatic conditions and low operation and maintenance capacity. There is a clear need to catalyze a new market for batteries and other energy storage solutions that are suitable for electricity grids for a variety of grid and off-grid applications and deployable on a large scale. To enable the rapid uptake of variable renewable energy in developing countries, the WBG is convening an **Energy Storage Partnership (ESP)** that will foster international cooperation on:

Technology Research Development & Demonstration, Applications

System Integration and Planning Tools

Policies, Regulations and Procurement

Enabling Systems for Management and Sustainability

By connecting stakeholders and sharing international experiences in deploying energy storage solutions, the ESP will help bring new technological and regulatory solutions to developing countries, as well as help develop new business models that leverage the full range of services that storage can provide. The ESP will take a holistic, technology-neutral approach by including all forms of energy storage, including batteries. The ESP will help expand the global market for energy storage, leading to technology improvements and accelerating cost reductions over time.

"The fast growth we're seeing in the electric vehicle market is exactly what we need for energy storage in power systems around the world. We want to see batteries connected to the grid, serving mini-grids, and enabling much more use of renewable power from the sun and wind," said **Riccardo Puliti**, Senior Director for Energy and Extractives, World Bank. *"This is why we are convening the Energy Storage Partnership and we are honoured to work with the partners who have joined this initiative. We're looking forward to having more partners join the effort."*

"*Mission Innovation was born out of a global commitment to accelerate clean energy innovation, to make clean energy widely affordable and accessible. We recognize that this cannot be done by Mission Innovation alone and that we need strong partnerships with organizations like the World Bank to be successful,*" said **Frank Des Rosiers**, Chair of the Mission Innovation Steering Committee. *"This Energy Storage Partnership with the World Bank aligns with a key innovation opportunity that Mission Innovation members have identified through our Smart Grid Innovation Challenge."*

"*Power systems are undergoing rapid change. Policy makers and regulators need to actively identify options to increase the flexibility of power systems in their jurisdictions; this not least to accommodate the integration of increasingly larger shares of intermittent renewable generation and distributed* *energy resources,*" said **Christian Zinglersen**, Head of Secretariat, Clean Energy Ministerial. "*This is the focus of several areas of CEM work where storage is an area of increasing interest amongst CEM governments and other partners. Policy and regulatory design will remain key in order for storage-based solutions to contribute cost efficiently to the needs of a changing power mix. Hence, partnerships such as this targeting real-world, deployable solutions are very valuable*."

The ESP will be hosted at the World Bank's Energy Sector Management Assistance Program (ESMAP) and will be developed and implemented in partnership with other organizations. The ESP will complement the WBG's $1 billion battery storage investment program announced in September 2018 to significantly scale up support to battery storage projects and raise an additional $1 billion in concessional finance.

IMF THIS WEEK

The IMF Today and Tomorrow

To meet future challenges, the IMF must have strong backing from its members

"Protection will lead to great prosperity and strength." —US President Donald Trump, inaugural address, January 20, 2017

"We have come to recognize that the wisest and most effective way to protect our national interests is through international cooperation—that is to say, through united effort for the attainment of common goals."
—US Treasury Secretary Henry Morgenthau, Jr., closing address at Bretton Woods Conference, July 22, 1944

"For everything to stay the same, everything must change." —Giuseppe Tomasi di Lampedusa, *The Leopard*

The world is changing. The IMF is changing with it. The question, however, is not only how it needs to change if it is to remain relevant. It is also whether the political environment will allow it to remain relevant. The IMF is built on a commitment to cooperation among member countries. That commitment is on the wane. But the countries of the world might rediscover its importance. If so, they will find the Fund an invaluable instrument. The IMF cannot ensure that outcome. But it can, and must, prepare for it. To its credit, it is doing so. The world that surrounds the Fund has changed, or is changing, in several crucial respects. The first and most important change is a shift in global economic, and therefore political, power. In 2000, advanced economies generated 57 percent of global output, measured by purchasing power parity. By 2024, according to IMF forecasts, that share will fall to 37 percent. Meanwhile, China's share will jump to 21 percent from 7 percent, and the rest of emerging Asia will account for 39 percent of global output, compared with 14 percent for the United States and 15 percent for the European Union (see Chart 1). The second transformation is an increase in great-power rivalry as relations deteriorate between Western powers and a rising China. The United States has labeled China a "strategic competitor." The European Union, more narrowly, has called it an "economic competitor in the pursuit of technological leadership." Either way, cooperation seems certain to become more difficult. The third change is a turn toward populist politics, not least within advanced economies. One feature of this populism is suspicion toward technocratic expertise. This affects not just the credibility of domestic technocratic institutions, including independent central banks and finance ministries, but also of international technocratic institutions, among which the IMF is arguably the most significant. The fourth change consists of the slowdown, or even reversal, of globalization. This is markedly true in some areas of finance, such as a dramatic decline in the foreign claims of euro area banks (Lund and others 2017). But it is also true in trade: prior to the transatlantic financial crisis, the volume of world trade grew almost twice as fast as world output. Now trade and output are growing at about the same rate. Recently we have even seen the emergence of outright protectionism in the United States (see Chart 2). The fifth change involves technology. Technological progress has been the driving force of economic growth. But the role of the internet and recent advances in artificial intelligence have brought new vulnerabilities and upheavals, including cyber attacks and massive shifts in labor markets. The sixth change is an increase in financial fragility. This has been gathering over decades. Substantial efforts have been made to reduce this fragility, not least by the IMF. But the ratio of debt to gross output has increased, and debt has shifted from the private to the public sector and to some degree from advanced to emerging market economies. Further financial disruptions are quite possible (see Chart 3). The seventh change is the phenomenon dubbed "secular stagnation" by Harvard University's Lawrence Summers at an IMF conference in 2013. Weak demand, indicated by a combination of low inflation and ultralow real and nominal interest rates, appears to be structural and so is likely to persist. Room for an effective conventional—or even conventionally unconventional—policy response to a downturn might be very limited. The final change is the rising salience of climate change as a policy issue. This is likely to have important effects on development strategies and macroeconomic policies in all countries, particularly in poorer and more vulnerable ones. All this creates a highly challenging environment for the IMF, which has also been changing. Indeed, its most durable characteristic has been its ability to adapt to successive changes in the world. This partly reflects the high quality of its staff and its usually competent management. Yet the IMF is also handicapped by a limited capacity to influence the actions either of countries with robust balance of payments positions or of the United States, the issuer of the world's reserve currency, the dollar. This is not a new issue: it was recognized—and remained unresolved—at the Bretton Woods conference in 1944 (Steil 2013). The Fund also makes mistakes, not least because it is heavily influenced by the conventional wisdom of professional economists and powerful countries. It seriously underestimated the perils of financial liberalization, both domestic and external. This was true despite the prescient warnings of Raghuram Rajan, the IMF's economic counsellor from 2003 to 2006.

Learning from mistakes

It is, however, reasonable to expect the Fund to learn from mistakes. It has done so. After the transatlantic crisis, it reevaluated the impact of government spending cuts and tax increases on growth. The quality of its surveillance of financial risks has also vastly improved in its flagship*Global Financial Stability Report* and *World Economic Outlook* and in work on member countries. An important step has been its recognition that liberalizing flows of capital across borders carries risks as well as benefits. No crisis has been more troublesome than the one in the euro area. It put the IMF in the difficult position of dealing with a central bank and countries it could not control. The Fund worked with euro area institutions on country programs that had some successes but also significant shortcomings, notably in the case of Greece. One result was to reform the IMF's lending framework for countries with high sovereign debt and, above all, to end exemptions—in the case of systemic crises—from mandatory debt sustainability as a condition for Fund support. The IMF's stepped-up engagement with fragile states is significant as well. It requires new and imaginative approaches to securing necessary political and institutional transformation. With these steps, the Fund has updated its old agenda of maintaining macroeconomic stability. But it has also taken up several new challenges, including income and wealth inequality, gender inequality, corruption, and climate change. These challenges are outside the Fund's historical areas of competence. But they are vital in themselves and to important constituencies in member countries, and they have important macroeconomic implications. Softening the IMF's image can be helpful, especially in a political environment that has become difficult for international financial institutions. And, in some respects, the Fund's work has been vital, especially on fossil fuel subsidies and the cost of corruption.

Challenges to come

If the world of cooperative globalization is to survive and the IMF is to maintain its role within it, a great deal must change. Some of these changes are within the Fund's control. Others call for a new global consensus. A big internal task is to take on the intellectual challenges of our unstable world economy. Particularly significant is the need to reconsider monetary, fiscal, and structural policies, globally and within influential countries, in the context of ultralow interest rates, low inflation, large debt overhangs, and secular stagnation. What are policymakers to do when the next downturn comes? How—if at all—might mass restructuring of private or sovereign debt be managed? Is there any validity in unorthodox perspectives such as "modern monetary theory"? The Fund needs to become even more deeply engaged in these topics if it is to prepare for what lies ahead. But it must also get more closely engaged in other difficult areas. The political economy of protectionism is one example. The impact of artificial intelligence is another. Above all, the IMF must remain relevant to all its members. The only plausible way to do that is to produce work of the highest intellectual quality and integrity, especially in surveillance. This may irritate the subjects of the Fund's judgments from time to time. But it will sustain the reputation and influence of the IMF among its members. A question in this context is whether it needs more staff expertise in the *politics* of change: it is all very well to preach the ending of subsidies, but how is that to be accepted? Another question is whether more staff should reside permanently in member countries. A detailed review of the IMF's way of working would make good sense. The most important challenges for the IMF of tomorrow are, however, those created by our changing world. Three stand out.

First, voting shares should be aligned with each member's economic importance. EU members (including the United Kingdom) currently have 29.6 percent of votes; the United States, 16.5 percent; Japan, 6.2 percent; and Canada, 2.2 percent. By contrast, China has a mere 6.1 percent and India 2.6 percent. These figures are wildly out of keeping with the relative weight of these economies. True, advanced economies still dominate global finance and issue all the significant reserve currencies. But this will probably not last. If institutions such as the IMF are to remain globally relevant, voting shares must be reweighted, especially toward Asia, as Edwin Truman (2018) of the Peterson Institute for International Economics has persuasively argued. Otherwise, China will surely establish its own version of the IMF, just as it has already launched the Asian Infrastructure Investment Bank and the New Development Bank.

Second, the IMF's financial firepower must be increased substantially, particularly in a world of relatively free capital flows. Its lending capacity is currently just $1 trillion. Compare that with global foreign exchange reserves of $11.4 trillion. The disparity demonstrates the inadequacy of IMF resources and the perceived costliness of gaining access to them. Of course, there is moral hazard associated with expanding the safety net. But moral hazard does not eliminate the case for insurance, fire brigades, or central banks. The same applies to the Fund.

Finally, if the institution is to be credibly global, its top job cannot be permanently left in the hands of a European, however admirable some of those Europeans have been. Global institutions need the best global leaders. Those leaders should be chosen not by a process of lowest-common-denominator horse trading, but openly and transparently, with candidates required to submit their platforms for the future development of the institution.

Will to cooperate

As IMF Managing Director Christine Lagarde has said, "The 44 nations gathering at Bretton Woods were determined to set a new course—based on mutual trust and cooperation, on the principle that peace and prosperity flow from the font of cooperation, on the belief that the broad global interest trumps narrow self-interest." It is the marriage of professionalism with this will to cooperate that has made the IMF a cornerstone institution. Perhaps the Fund's most striking quality is its adaptability. It will surely need that adaptability in the years to come. But even more, it will need a world where the dominant powers believe in what the IMF embodies: professionalism, multilateralism, and above all, cooperation. If this is not the world in which it operates, it will struggle. In the end, the Fund is the world's servant. It can guide, but it cannot shape the world. As the world goes, so will the IMF.

Corruption and Your Money

The costs of corruption run deep. Your taxpayer dollars are lost in different ways, siphoned off from schools, roads, and hospitals to line the pockets of people up to no good. Equally damaging is the way it corrodes the government's ability to help grow the economy in a way that benefits all citizens. And no country is immune to corruption. Our Chart of the Week from the *Fiscal Monitor* analyzes more than 180 countries and finds that more corrupt countries collect fewer taxes, as people pay bribes to avoid them, including through tax loopholes designed in exchange for kickbacks. Also, when taxpayers believe their governments are corrupt, they are more likely to evade paying taxes. The chart shows that overall, the least corrupt governments collect 4 percent of GDP more in tax revenues than countries at the same level of economic development with the highest levels of corruption. A few countries' reforms generated even higher revenues. Georgia, for example, reduced corruption significantly and tax revenues more than doubled, rising by 13 percentage points of GDP between 2003 and 2008. Rwanda's reforms to fight corruption since the mid-1990s bore fruit, and tax revenues increased by 6 percentage points of GDP. These are just two examples that demonstrate that political will to build strong and transparent institutions can turn the tide against corruption. The *Fiscal Monitor* shines a light on fiscal institutions and policies, like tax administration or procurement practices, and show how they can fight corruption.

The costs of corruption run deep.

Where there is political will, there is a way

Fighting corruption requires political will to create strong fiscal institutions that promote integrity and accountability throughout the public sector. Based on the research, here are some lessons for countries to help them build effective institutions that curb vulnerabilities to corruption:

Invest in high levels of transparency and independent external scrutiny. This allows audit agencies and the public at large to provide effective oversight. For example, Colombia, Costa Rica, and Paraguay are using an online platform that allows citizens to monitor the physical and financial progress of investment projects. Norway has developed a high standard of transparency to manage its natural resources. Our analysis also shows that a free press enhances the benefits of fiscal transparency. In Brazil, the results of audits impacted the reelection prospects of officials suspected of misuse of public money, but the impact was greater in areas with local radio stations.

Reform institutions. The chances for success are greater when countries design reforms to tackle corruption from all angles. For example, reforms to tax administration will have a greater payoff if tax laws are simpler and they reduce officials' scope for discretion. To help countries, the IMF has built comprehensive diagnostics on the quality of fiscal institutions, including public investment management, revenue administration, and fiscal transparency.

Build a professional civil service. Transparent, merit-based hiring and pay reduce the opportunities for corruption. The heads of agencies, ministries, and public enterprises must promote ethical behavior by setting a clear tone at the top.

Keep pace with new challenges as technology and opportunities for wrongdoing evolve. Focus on areas of higher risk—such as procurement, revenue administration, and management of natural resources—as well as effective internal controls. In Chile and Korea, for example, electronic procurement systems have been powerful tools to curtail corruption by promoting transparency and improving competition.

More cooperation to fight corruption. Countries can also join efforts to make it harder for corruption to cross borders. For example, more than 40 countries have already made it a crime for their companies to pay bribes to gain business abroad under the OECD anti-corruption convention. Countries can also aggressively pursue anti–money laundering activities and reduce transnational opportunities to hide corrupt money in opaque financial centers.

Curbing corruption is a challenge that requires persevering on many fronts, but one that pays huge dividends. It starts with political will, continuously strengthening institutions to promote integrity and accountability, and global cooperation.

The Impact of US-China Trade Tensions

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. The views expressed are those of the author(s) and do not necessarily represent the views of the IMF and its Executive Board.

By Eugenio Cerutti, Gita Gopinath, and Adil Mohommad

US-China trade tensions have negatively affected consumers as well as many producers in both countries. The tariffs have reduced trade between the US and China, but the bilateral trade deficit remains broadly unchanged. While the impact on global growth is relatively modest at this time, the latest escalation could significantly dent business and financial market sentiment, disrupt global supply chains, and jeopardize the projected recovery in global growth in 2019.

Evolution of trade in the US and China

The raising of US tariffs to 25 percent on $200 billion of annual Chinese imports on May 10, together with the announced Chinese retaliation, marks the latest escalation in the US–China trade tensions. The impact of previously imposed tariffs by the US and subsequent retaliation by China is already evident in trade data. Both the countries directly involved and their trading partners have been affected by rising tariffs. In 2018, the US imposed tariffs sequentially on three “lists” of goods from China, targeting first $34 billion of annual imports, then $16 billion more, and finally an additional $200 billion. As a result, US imports from China have declined quite sharply in all three groups of the goods on which tariffs were imposed. In cases where there was a delay between announcement and implementation of tariffs, as in the case of the $16 billion and $200 billion lists, or plans to phase in the tariff increase, as in the case of the $200 billion list, we observed an increase in import growth in advance of the effective dates. This suggests that importers stocked up ahead of the tariffs, accounting for the sharper decline in imports thereafter. As China imposed retaliatory tariffs, US exports to China also declined. While the front-loading dynamic is not evident in this case, US export growth to China has been generally weaker since the trade tensions began.

Effects on consumers

Consumers in the US and China are unequivocally the losers from trade tensions. Research by Cavallo, Gopinath, Neiman and Tang, using price data from the Bureau of Labor Statistics on imports from China, finds that tariff revenue collected has been borne almost entirely by US importers. There was almost no change in the (ex-tariff) border prices of imports from China, and a sharp jump in the post-tariff import prices matching the magnitude of the tariff. Some of these tariffs have been passed on to US consumers, like those on washing machines, while others have been absorbed by importing firms through lower profit margins. A further increase in tariffs will likely be similarly passed through to consumers. While the direct effect on inflation may be small, it could lead to broader effects through an increase in the prices of domestic competitors.

Effects on producers

The effect on producers is more mixed, with some winners and many losers. Some US and Chinese producers of goods competing in domestic markets with imports affected by tariffs, as well as competing third country exporters, are potential winners. and Chinese producers of the goods affected by the tariffs as well as producers that use those goods as intermediate inputs, are potential losers. Trade diversion is one channel through which producers are affected. Aggregated bilateral US data does suggest that trade diversion has occurred, as the decline in imports from China appears to have been offset by an increase in imports from other countries. For example, US imports from Mexico increased significantly among some goods on which the US imposed tariffs. After the $16 billion list was implemented in August, a sharp decline of nearly $850 million in imports from China was almost offset by about $850 million increase from Mexico, leaving overall US imports broadly unchanged. For other countries such as Japan, Korea and Canada, one can observe smaller increases in US imports relative to the levels in September-November 2017. Of course, aggregate data could be masking other factors driving the bilateral trade patterns, such as the use of inventories. For example, there was little or no change in imports from third countries in the case of photosensitive semiconductor devices. The other channel by which producers could be affected is through market segmentation in the price of traded goods. This was most clearly observed in the case of soybeans, where US exports to China fell dramatically in 2018 after China imposed tariffs. The United States was China's dominant soybean supplier, along with Brazil, in 2017. With the tariffs, the price of US soybeans fell while that of Brazilian soybeans increased, as US exports to China dropped to near zero and Brazilian exports to China trended higher. Though prices have since re-converged and soybean exports to China have resumed to some extent, US soybean farmers suffered, while those in Brazil benefited from trade diversion and market segmentation. The impact on US producers with significant exposure to Chinese markets was also captured in stock market valuations. For instance, the equity price performance of US companies with high sales to China underperformed relative to US businesses exposed to other international markets, after tariffs linked to the $34 billion retaliation list by China were implemented. The gap narrowed at the beginning of 2019 with the trade truce. But it reopened again after the US tariff increase to 25 percent on the $200 billion list was announced on Twitter.

Macroeconomic effects

The ratcheting up of bilateral tariffs between the US and China has had limited effect on their bilateral trade balance. In fact, in 2018, the trade deficit increased for the US as imports from China rose, which partly reflects the front-loading. As of March 2019, a small decline can be observed, but US exports to China are also falling. Indeed, macroeconomic factors—including relative aggregate demand and supply in partner countries and their underlying drivers—play a much bigger role than tariffs in determining bilateral trade balances. At the global level, the additional impact of the recently announced and envisaged new US-China tariffs, expected to extend to all trade between those countries, will subtract about 0.3 percent of global GDP in the short term, with half stemming from business and market confidence effects. The IMF's forthcoming G-20 Surveillance Note in early June will provide further details. These effects, while relatively modest at this time, come on top of tariffs already implemented in 2018. Moreover, failure to resolve trade differences and further escalation in other areas, such as the auto industry, which would cover several countries, could further dent business and financial market sentiment, negatively impact emerging market bond spreads and currencies, and slow investment and trade. In addition, higher trade barriers would disrupt global supply chains and slow the spread of new technologies, ultimately lowering global productivity and welfare. More import restrictions would also make tradable consumer goods less affordable, harming low-income households disproportionately. This type of scenario is among the reasons why we referred to 2019 as a delicate year for the global economy.

BASLE THIS WEEK

FSB Key Attributes - Executive Summary

The Key Attributes of Effective Resolution Regimes for Financial Institutions issued by the Financial Stability Board (FSB) are a core element of the policy measures adopted by the G20 in the wake of the Great Financial Crisis to address the problem of financial institutions (FIs) that are "too big to fail." Those measures represent a two-pronged strategy to reduce both the probability and the impact of failure of systemically important FIs (SIFIs). Measures to reduce the probability of failure include requirements for additional loss absorption capacity for global SIFIs (G-SIFIs)[1] and more intensive and effective supervision of FIs. The Key Attributes set out the essential features that resolution regimes should incorporate to enable authorities to resolve failing FIs in an orderly manner that limits the overall impact on economic activity, without exposing public funds to loss.

Scope of the Key Attributes

The Key Attributes are the international standard for resolution regimes for any type of FI. The standard consists of 12 "key attributes" (KAs). Two KAs, relating to cross-border Crisis Management Groups (CMGs), apply only in relation to G-SIFIs. The other KAs apply to resolution regimes for all FIs that could be systemic in the event of failure. However, some KAs require adaptation and sector-specific interpretation. The "umbrella" standard is therefore supplemented with Annexes providing implementation guidance for insurers, financial market infrastructure and firms that hold client assets. The FSB has also developed guidance on resolution strategies and planning for different types of FI.

Main provisions of the Key Attributes

The 12 KAs outline the powers and associated legal safeguards, funding arrangements, and requirements for planning and cross-border cooperation that are necessary to facilitate effective resolution.

Legal framework and institutional arrangements

Resolution of FIs should be carried out by administrative resolution authorities with clear statutory objectives that include the pursuit of financial stability and continuity of the FI's critical functions. The resolution regime should enable the authority to intervene when it is (or likely to be) no longer viable, with no reasonable prospect of return to viability. This means before it is balance sheet insolvent.

Resolution powers and tools

Resolution authorities should have a broad range of tools and powers to manage the failure of an FI in a way that ensures continuity of its critical functions. These include the ability to:

- transfer ownership or assets, rights and liabilities, without the consent of shareholders or creditors, to achieve the sale of all or part of the failing FI, transfer of the FI's critical functions to a temporary bridge institution or transfer of non-performing assets to a management vehicle

- write down unsecured liabilities or convert them to equity with the purpose of absorbing losses or providing capital ("bail-in")[2]
- impose a temporary stay on early termination rights under financial contracts
- liquidate all or part of the FI, with timely payout or transfer of insured deposits and prompt access to client funds and assets

Legal safeguards

Since resolution actions may interfere with contractual, statutory or constitutional rights, the Key Attributes specify a number of legal safeguards. In particular, the "no creditor worse off" safeguard protects creditors and shareholders of an FI in resolution by ensuring, through compensation if necessary, that their losses are no greater than they would have been if the FI had been liquidated.

Funding

A primary motivation for the Key Attributes is that resolution regimes should provide options so that authorities are not constrained to rely on public ownership or bailout. Privately financed sources of resolution funding should therefore be available. If public funds are used in resolution, there should be mechanisms to recover those funds from the firm in resolution, its creditors or the broader financial sector. Arrangements should also be in place to ensure access to temporary liquidity for firms in resolution.

Recovery and resolution planning and resolvability

Recognising that preparation is fundamental for effective resolution, the Key Attributes require recovery and resolution plans to be maintained, and updated regularly, for all FIs that could be systemic in failure.

- Recovery plans, prepared by the FI, should set out credible options for restoring financial or operational soundness in a range of idiosyncratic and market-wide stress scenarios.
- Resolution plans, developed by authorities using information provided by the FI, set out the resolution strategy and tools and a detailed operational plan for implementing that strategy. Resolvability assessments to assess the feasibility of the resolution strategy are an intrinsic part of the resolution planning process. Authorities should have powers to require FIs to adopt measures to address impediments to their resolvability.

Cross-border cooperation and information-sharing

Since many FIs within the scope of this standard operate in multiple jurisdictions, the Key Attributes contain a number of provisions that support cross-border cooperation and information-sharing.

- There should be no obstacles to cross-border information-sharing for the purposes of planning or carrying out resolution, provided adequate confidentiality arrangements are in place.
- CMGs involving home and key host authorities should be maintained for all G-SIFIs, as a forum for coordination and information-sharing. Since not all G-SIFI host authorities are included in CMGs, home authorities should also put in place cooperative arrangements with the authorities of jurisdictions where the G-SIFI has locally systemic operations ("non-CMG hosts").
- National legal frameworks should provide clear and timely processes for giving legal effect to foreign resolution measures directed at local assets or liabilities of a foreign FI in resolution.

BY VASANT PONKSHE
EX-SECRETARY AIBOA
CO-CHAIRMAN BOMOA
PERMANENT INVITEE TO AIBOA

THANK YOU BANK OF MAHARASHTRA OFFICERS' ASSOCIATION (AFFILIATED TO AIBOA)