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PM Modi reconstitutes Niti Aayog;

Amit Shah ex-officio member NEW DELHI: Ahead of the first meeting of NITI Aayog's governing council on June 15, Prime Minister Narendra Modi approved reconstitution of the policy think tank. While Rajiv Kumar continues to remain the vice chairman with V K Saraswat, Ramesh Chand and Dr V K Paul as members, the name of economist Bibek Debroy was dropped. The statement issued by PIB on Thursday night however did not find name of Amitabh Kant, who was CEO at NITI Aayog in NDA-I. The newly constituted NITI Aayog will have defence minister Raj Nath Singh, home minister Amit Shah, Finance and Corporate Affairs minister Nirmala Sitharaman, agriculture, farmers welfare and rural development minister Narendra Singh Tomar as ex-officio members. Among the special invitees are Nitin Gadkari, minister of road transport and highways, Thaawar Chand Gehlot, Minister of Social Justice and Empowerment, Piyush Goyal, Minister of Railways; and Minister of Commerce and Industry, Rao Inderjit Singh, Minister of State (Independent Charge) of the Ministry of Statistics. Prime Minister on June 15 will chair the fifth meeting of NITI Aayog's Governing Council to discuss various issues concerning water management, agriculture and security, official sources said Tuesday. The council, the top body of NITI Aayog, includes all chief ministers, lieutenant governors of union territories, several union ministers and senior government officials. This will be the first governing council meeting under the new Modi government. "All the chief ministers and heads of union territories have been invited by the NITI Aayog to participate in the meeting," sources said. The Governing Council is expected to discuss important subjects, including major issues concerning water management, agriculture, and aspirational district programme, according to official sources.

Sitharaman's difficult choice: Rescuing NBFCs

It is nine months since Infrastructure Leasing & Financial Services (IL&FS) imploded. RBI has pumped in nearly Rs 3.6 lakh crore in liquidity since April 2018. Conversion of loans into tradeable securities or securitisation is at record highs. Non-banking finance companies (NBFCs) have sold assets worth at least Rs 1.3 lakh crore. Defaults by big borrowers are few and far between. Not just that. Some shadow banking lenders such as Mahindra Financial and Shriram Transport have raised more than a billion dollars in overseas debt. Some others have recovered from a slump and are posting record profits. Still, Anil Ambani, the chairman of a financial conglomerate, declares that the non-banking finance industry is in urgent need of a bailout package for survival. "The sector has gone into ICCU over the past eight months," Ambani said in a recent interview with ET. "The contagion and its cascading effect on the economy are clearly visible. In ICCU, if you want to save the patient, what is needed is not paracetamol but full life support.” Nirmala Sitharaman, the 59-year-old economist from Jawaharlal Nehru University who has just taken charge of the finance ministry, has her job cut out. That is to pull up the economic growth rate, which has slumped to a five-year low. But she is starting her innings with a key player severely injured. It’s like Liverpool Football Club’s Jurgen Klopp going into a Champions League knock-out match without Mohammed Salah. “The new FM can incentivise banks to lend to private NBFCs,” said Raman Agarwal, chairman, Finance Industry Development Council, a representative body of NBFCs. “The issue of bank’s hesitation and increasing costs needs to be addressed. The situation is critical for small and medium-sized NBFCs, where banks play a big role in providing growth funds.” Ever since IL&FS defaulted, the entire industry is on the ropes. Mutual funds, a key lender to the segment but without reliably long-term funds, have frozen because of redemption pressures. So NBFCs, a key intermediary that lent to millions of small firms and individuals to buy cars and motorcycles, are unable to meet the demand. SMEs account for 8% of India’s GDP.

RBI issues revised circular on stressed loans: Here are all the details

The Reserve Bank of India (RBI) today issued revised circular on resolution of stressed loans. The Supreme Court had on April 2 struck down RBI's February 12 circular whereby the central bank had mandated lenders to initiate resolution or restructuring of loans even if the default was recorded for a single day. Revising its 1-day default norm, RBI has now said that the lenders should now review the accounts within 30 days of default and initiate a resolution plan before the default. Here are all the key details of the new RBI circular:

* Under the new 'Prudential framework for resolution of stressed assets', lenders will have complete discretion to design, implement resolution plan.

* Banks may start resolution, IBC process within 30 days of default.

* Once a borrower is reported to be in default by any lenders, they may review of the borrower account within 30 days from the day of default.

* Lenders should follow a board-approved policy for resolution of bad loans.

* Changing its earlier norm of 100 percent approval from creditors, RBI has now allowed approval of 75 percent of creditors for the resolution. * Mandatory to sign inter-creditor agreement (ICA) by all lenders, which will provide for a majority decision making criteria. * Lenders must resolve over Rs 2000 crore NPA account within 180 days. * Lenders to provide more provisioning for delay in resolution plan. * The joint lenders' forum (JLF) as mandatory institutional mechanism for resolution also stands discontinued. * The accounts would be classified according to this time table:

SMA Subcategories

Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between

SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

In the case of revolving credit facilities like cash credit, the SMA sub-categories will be as follows:

SMA Subcategories

Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:

SMA-1	31-60 days
SMA-2	61-90 days

* In addition, the lenders shall submit a weekly report of instances of default by all borrowers (with aggregate exposure of Rs 50 million and above) by close of business on every Friday, or the preceding working day if Friday happens to be a holiday," RBI said in its circular.

Can RBI policy be the blueprint for world's central banks?

By Daniel Moss

India is becoming the gold standard for monetary policy in Asia, if not the world. While global markets are giddy from hints that the Federal Reserve may cut interest rates, India's central bank has been easing since February. Just as important, the Reserve Bank of India has been very consistent in its message: Borrowing costs need to come down to juice growth. Passive inflation and the central bank's full tank of gas make the case to cut even stronger. After Thursday's trim, the benchmark rate is 5.75%. The RBI's approach is correct. There's no point targeting inflation if growth is waning and the very thing you're aiming at is dormant. Thursday's quarter-point reduction in the benchmark rate, the third in as many policy meetings, underscores the theme: "Growth impulses have weakened significantly,'' according to the central bank's statement. "A sharp slowdown in investment activity along with a continuing moderation in private consumption growth is a matter of concern.'' The RBI made clear that "global economic activity has been losing pace" & declared its stance to be "accommodative." Much focus is rightly given to Beijing's efforts to pull both fiscal and monetary levers; as big as India's economy is, China's is much larger. But the People's Bank of China tends to be opaque and is trying to thread the needle between buttressing the economy and fretting about financial stability. Japan, meanwhile, gets plenty of attention as a pioneer of unconventional policies – yet its economy remains a parable about how booms can end in tears. And remember back in February, the consensus was that the Fed had just paused before resuming hikes. Few serious observers believe that now. So give Governor Shaktikanta Das his due. The RBI's rate cut in February was risky – few economists anticipated it – but appropriate. The signaling power was immense. Officials followed that up with another reduction in April. The outlook has only deteriorated since then. Central banks in Malaysia, the Philippines, Australia and New Zealand concurred. India was, and still is, ahead of the curve – all the more remarkable given emerging markets tend to follow the Fed. Even the chaos surrounding the withdrawal of most banknotes from circulation in 2016 has slipped from the foreground. It's important to separate the manner of Das's arrival as chief and the job he's done since getting there. Prime Minister Narendra Modi's team clashed with Das's two immediate predecessors, which cast a whiff of politics over their exits. Das was drawn from the ranks of India's bureaucracy rather than the central bank. It was clear the government didn't want any freelancing. For a while there, it seemed like the RBI chief's office was a revolving door. Given Das's success in monetary-policy development and execution, India would do well to keep him around. Quite right, too, given all the predictions for the country's economic greatness. India needs this to succeed.

India surely needs a mega bailout, and here's how it may look like

By Andy Mukherjee

Another shadow bank in India has missed a bond payment. That's a reminder to the new government that a mega-bailout of the country's distressed financial industry is now unavoidable. Ever since the collapse of infrastructure financier-operator IL&FS Group in September, an event I termed India’s mini-Lehman moment, the funding woes of the country’s nonbank lenders – those that operate without state-guaranteed deposits or access to central-bank liquidity – have kept worsening. The latest casualty is Dewan Housing Finance Corp., which missed payments due June 4 and had its short-term credit rating cut to default at the local affiliate of S&P Global Ratings. Mutual funds, which have vigorously lent surplus household and corporate cash to Dewan and many such financiers, are trapped. Their search for yield has gone wrong. This crisis has “systemic” written all over it because the market can no longer distinguish financiers that are illiquid from those that are insolvent. Nothing short of a Troubled Asset Relief Program, of the kind enacted by the U.S. during the 2008 credit crisis, will restore confidence. Here’s one possible blueprint.

1. Set up Maiden Lane equivalents. The Reserve Bank of India could establish special-purpose vehicles akin to the Federal Reserve’s Maiden Lane instruments created to rescue Bear Stearns Cos. and American International Group Inc., or AIG. They could be numbered 1 to n. Whoever wants to buy the more stable assets of a troubled shadow bank (say, mortgages or auto finance), can make a proposal for a carve-out. The remaining assets – typically construction debt – will be bought by the Maiden Lane equivalents, funded with loans from the RBI. Equity in the dismembered financiers will be rendered worthless but all creditors, including mutual funds, will be made whole.

2. Create a land bank. Will the RBI lose money by warehousing risky construction debt? Not if it can persuade the government to create a land bank. As Vikas Oberoi, the CEO of Mumbai-based Oberoi Realty Ltd., pointed out on an earnings call last month, developers are trying to monetize land “so bad that you can't make business out of that.” Has the money raised against shady collateral from shadow banks gone to some private accounts in Singapore or Switzerland? Let those investigations proceed apace, but the government should immediately create a land bank into which struggling developers will be persuaded to sell a part of their holdings in lieu of state-guaranteed land-bank securities, which they can take to a commercial bank and get the cash to repay creditors and complete more advanced projects. As for projects the developer refuses to part with, they will be taxed heavily if they remain unsold, something Singapore does to keep inventory moving. Over time, urbanization will lift property values. If the land bank is able to turn a profit in future in excess of its carrying cost, a mechanism to share the bounty with the developers can be considered.

3. Refinance maturing loans. Suppose a business owner wants to re-mortgage a residential or commercial property to take out a working capital loan. The world of these small borrowers – and of their customers – is turning bleak, not because President Donald Trump and China are fighting but because local financing costs have become unbearable. A decently priced refinance offer from someone will be a big relief. Let that someone be a state-sponsored vehicle. It will make a transparent online bid, based on credit scores, for every loan against property coming up for refinancing. Borrowers can choose to to go with the new option, stick to their original creditor (if it’s willing to refinance), or seek their loan elsewhere. The refinancing vehicle will pool the loans it writes and parcel them out as securities to investors. Preventing a $55 billion working capital market from drying up for small businesses will go some way toward lifting GDP growth, which hit a five-year low in the March quarter.

4. Lubricate the banking system. India’s central bank bought two-thirds of the net issue of government bonds in the financial year that ended in March. In two moves – in March and April – the RBI even took a total of $10 billion in dollars from banks and gave them rupees for three years, and

yet liquidity in the banking system has only recently gone into surplus after hitting a deficit of 1.49 trillion rupees ($21 billion) in late April. On Thursday, the RBI cut its benchmark interest rate by 25 basis points, the third reduction in 2019. More cuts are coming, but for the lower rates to get passed on to final borrowers, liquidity must be more than ample. If that means more quantitative easing-style bond purchases, so be it.

5. Switch off the air-conditioning. The RBI hasn't exactly covered itself in glory with its lax supervision of shadow banks. But this is the hot and humid season in Mumbai, a perfect opportunity for the central bank's soon-to-be-bolstered supervision team to call market participants including rating companies, lenders and everyone it has any power over, for uncomfortable meetings with the air-conditioning turned off. New regulations like the proposed liquidity buffer for shadow lenders are welcome. But even the thickest of rule books means nothing without robust policing.

Nirmala Sitharaman to meet industry chambers on Jun 11 for pre-Budget consultation

New Delhi: Finance Minister Nirmala Sitharaman has called a meeting of leading industry chambers on June 11 to elicit their views on various issues, including steps to boost FDI inflows and industrial productivity, as part of the pre-Budget consultation exercise, sources said. This would be the first joint interaction with Sitharaman, who took over as India's first full-time woman finance minister last month, after the BJP-led NDA government won a second term. Representatives of industry bodies like CII, Ficci and Assocham, among others, are expected to attend the meeting. Most of the industry bodies have already submitted their memoranda of demands to the finance ministry for consideration. The Budget will be presented by the minister in the Lok Sabha on July 5. Sources said the topics likely to be taken up during the meeting Tuesday include changes in the FDI guidelines to spur overseas investments in the country. The minister would also seek their views on the issue of mergers to enhance productivity, the categories of services needed to be expanded to meet domestic demand, and tariff structure to increase domestic output and exports. Special focus is likely to be on the tourism sector. Sources said the minister is particularly interested to know views of the industry on development of tourist sites with a view to attract more domestic as well as foreign travellers. In line with the custom, the NDA government had presented an interim Budget for 2019-20 in February ahead of the general elections. Now, the government will be presenting a regular Budget for the fiscal. The finance ministry has already indicated that it would be not be making major changes in the allocations earmarked for different ministries and departments in the interim Budget.

RBI imposes Rs 2 crore penalty on Kotak Mahindra Bank for not adhering to its directions

Taking a strict line, Reserve Bank of India today imposed penalty of Rs 2 crore on Kotak Mahindra Bank for not sharing promoter stake information with the Central Bank. The Central Bank said that the action is based on the deficiencies in regulatory compliance. "The bank was directed by RBI to furnish information about details of the shareholding held by its promoters and to submit details of the proposed course of action of the bank for complying with the permitted timeline for dilution of promoter shareholding," RBI said. "However, the bank failed to comply with the said directions and a Notice (SCN) was issued to the bank advising it to show cause as to why penalty should not be imposed for non-compliance with the said directions," it said. "After considering the reply received from the bank, submissions made by the bank during the personal hearing and the documents submitted by it, RBI came to the conclusion that the bank had failed to comply with the directions issued by RBI and decided to impose monetary penalty on the bank," it added. The tiff between the banking regulator and Kotak has been going on since 2014. The central bank has been engaged in a dispute with Kotak since 2014 for having failed to meet the first milestone stake reduction. In August 2018, the promoters sought to lower their stake to 19.7% through the sale of perpetual non-cumulative preference shares. The plan was rejected by the RBI. It’s said to have reasoned that the instruments were interest-bearing and derivative in nature with a call option after five years and therefore not equivalent to equity. The RBI wants promoters to reduce their stakes in banks to ensure they don’t retain untrammelled control and to promote professional management. The RBI had directed the Kotak Mahindra Bank in August 2018 to dilute promoter's holding from around 30 per cent to a maximum of 20 per cent of its paid-up voting equity capital by December 31, 2018 and to 15 per cent by March 31, 2020. But Uday Kotak has insisted that the owners’ stake in the bank as a percentage of paid-up capital was in line with rules.

Government, legal experts welcome new NPA resolution framework

Mumbai: Government, legal experts and analysts welcomed the new RBI framework for NPA resolution saying the new norms offer leeway to both capital-starved lenders as well as borrowers at the same time ensure that credit discipline is maintained. Welcoming the new norms announced by the central bank, which whittles down the February 12, 2018 circular struck down by the Supreme Court in April, commerce minister Piyush Goyal said the new stressed assets resolution framework offers "relief to businesses facing temporary financial issues, empower lenders to take decisions, improve credit availability in the economy and protect jobs, thereby boosting the economy." Legal experts said the new framework retains the core of the February 12, 2018, circular intact and provides a more implementable mechanism enabling faster resolutions. "The new framework builds on the February 12 circular and provides for a mechanism that will enable resolution through requisite majority. One of the major apprehensions of the February 12 circular was 100 percent consent of lenders, which has been addressed now. "Also, the stipulation of an inter-creditor agreement will enable banks to collectively decide resolutions outside IBC," L Viswanathan, a partner at the leading law firm Cyril Amarchand Mangaldas told . Karthik Srinivasan, group head for financial sector ratings at Icra said, "Overall the revised framework is positive as it incentivises banks for accelerated resolution of stressed assets" even though it increases the default recognition period to 30 days from the earlier one-day. He further said lowering the provisions from 50 percent to 35 percent will incentivise lenders to refer such stressed cases to IBC for faster resolution, even though the RBI allows lenders to adopt a case-specific approach for such reference. Even though the criterion for upgrades has been relaxed, which now requires at least 10 percent of debt repayments at the time of restructuring from 20 percent earlier, the requirement of an investment grade ratings will ensure that upgrades are done only for viable cases, he noted. Dhir & Dhir Associates' Ashish Pyasi said the new circular is more liberal than the February 12 one as the emphasis is more on reporting and resolution of stressed accounts are bank level. "Since stringent norms are made for provisioning, this circular gives another opportunity to promoters to resolve credit crisis before they are sent to NCLTs," he said. However, Sapan Gupta, the national practice head for banking & finance at Shardul Amarchand Mangaldas said, the circular is a mixed bag. "The provisions on signing inter-creditor agreement within 30 days of the default will be practically difficult. Also, additional provisioning is not a strong deterrent for delayed implementation. So the resolutions may get delayed," he argued. On the positive side, he said, provisioning will be frozen when the resolution plan under IBC is pending with NCLT, hence banks won't be penalised for court delays. "It will also boost in the interim, the finance market as that would be treated as standard asset," he added.

ET View: New RBI Circular offers defaulters little wiggle room

The new Prudential Framework for Resolution of Stressed Assets issued by the Reserve Bank of India, in fulfilment of the central bank’s promise to come out with a fresh set of directions after its February 12 Circular had been struck down by the Supreme Court, does not offer defaulting companies any substantial relief from the rigorous discipline laid down in the earlier circular. The essential difference is two-fold: one, banks and defaulters get additional 30 days for implementation of the resolution plans that still have to be put in place for them in every individual case, and two, defaulters get three rungs to descend to Non-Performing Asset hell, instead of plunging straight to that depth, as in the February 12 circular. After one day's delay in debt servicing, the defaulter would be labelled Special Mention Asset 1, and stay there till day 29, after which and till day 59, the defaulter would be Special Mention Asset 2. If repayment still does not happen, the defaulter would descend to Special Mention Asset 3 during days 6-90 of the initial default, and then be labelled an NPA thereafter. But the RBI also says that after Day 1 of default, the asset would lose the status of a standard asset. In the first 30 days since initial default, a review would be conducted of the defaulting loan and a resolution plan finalised with the consent of 75% of the lenders. The Resolution Plan has to be implemented within 180 days of conclusion of the review. The net effect is that the resolution plan has to be implemented within 210 days of the initial default, instead of 180 days of the initial default. Companies have been lobbying to avoid that initial labelling as a defaulter. That wish has not been granted. The RBI has also asked for additional provisioning, to concentrate the minds of the banks on tackling bad loans.

'Lack of response' forces govt to extend for 3rd time last date for applying for CVC

The Centre has for the third consecutive time extended the last date for applying for the top posts in the anti-corruption watchdog Central Vigilance Commission due to "lack of response" from eligible candidates, officials said Friday. The Personnel Ministry had in March end initiated the process of filling up the posts of central vigilance commissioner and vigilance commissioner. The last date for sending application to the ministry was May 1, which was first extended to May 22 and then till June 6, it said in an order. The date is further extended to June 17, the ministry said. Incumbent Central Vigilance Commissioner K V Chowdary and Vigilance Commissioner T M Bhasin demit offices this month after completing their tenure. The Central Vigilance Commission (CVC) consists of a central vigilance commissioner and two vigilance commissioners. Former chief of National Investigation Agency (NIA) Sharad Kumar is the other Vigilance Commissioner. "There are not sufficient number of applications received by the government. The extension in the last date has been given to allow more people to apply for the posts," a senior government official said. Those interested have been asked to write a 300 word write-up to indicate their suitability for the post and send application to the Personnel Ministry, according to the order. Central vigilance commissioner and vigilance commissioner shall hold office for a term of four years from the date on which he or she enters upon his or her office or till he/she attains the age of 65 years, whichever is earlier, it said. "All the applicants should be of outstanding merit and impeccable integrity and should have knowledge and at least 25 years of experience in the relevant field," the ministry's order said. A central vigilance commissioner or vigilance commissioner is appointed from persons who have been or are in an all India services (IAS, IPS and IFoS) or in any civil service of the Union or in a civil post having knowledge and experience in the matters relating to vigilance, policy making and administration including, police administration, among others, it said. Besides, a person who has held office or is holding office in a corporation established by or under any central Act or a government company owned or controlled by the central government and persons who have expertise and experience in finance including insurance and banking, law, vigilance and investigations are also eligible for the appointments. These persons must have held or is holding the position of chairman, managing director or chief executive officer of a Schedule-A central public sector enterprise and have served as a whole time director on the board for a period of at least three years are eligible to apply, the Personnel Ministry said.

RBI cuts interest rate to 9-year low; 10 key takeaways

The Reserve Bank of India (RBI) on Thursday slashed the repo rate, which is its policy rate, by 25 basis points for the third straight time amid growth concerns over domestic growth, uncertain global scenario and a sharp drop in crude oil prices. The repo rate now stands at 5.75 per cent, a nine-year low since July 2010. The central bank also changed its stance to ‘accommodative’ from neutral, suggesting rate hike is off the table now and there could instead be further easing of interest rates. “The MPC notes that growth impulses have weakened significantly as reflected in further widening of the output gap compared since April 2019 policy. A sharp slowdown in investment activity along with a continuing moderation in private consumption growth is a matter of concern,” RBI said in a statement. Here are 10 key takeaways from the monetary policy announcement:

FY20 GDP growth forecast downgraded:

RBI has downgraded growth forecast for FY20 to 7 per cent from 7.2 per cent projected in April policy. It said March quarter data indicated that domestic investment activity has weakened and slowing exports have weighed down overall demand. Weak global demand due to escalation in trade wars may further impact India’s exports and investment activity. Further, private consumption, especially in rural areas, has weakened in recent months. On the positive side, political stability, higher capacity utilisation, an uptick in business expectations in Q2, buoyant stock market conditions and higher financial flows to the commercial sector augur well for investment activity, RBI said.

Inflation projection:

RBI revised CPI inflation projection for April-September period upward to 3-3.1 per cent from 2.9-3 per cent and for October 2019 –March 2020 period to 3.4-3.7 per cent from 3.5-3.8 per cent. “Risks around the baseline inflation trajectory emanate from uncertainties relating to the monsoon, unseasonal spike in vegetable prices, international fuel prices and their pass-through to domestic prices, geopolitical tensions, financial market volatility and the fiscal scenario,” RBI said in a statement.

Change in policy stance:

The MPC changed policy stance from ‘neutral’ to ‘accommodative’. All members of the MPC, including Chetan Ghate, Pami Dua, Ravindra H Dholakia, Michael Debabrata Patra, Viral V Acharya and Shaktikanta Das unanimously decided to reduce the policy repo rate and change the stance of monetary policy. “Unanimous decision reflects MPC’s stance to act decisively and act in time,” RBI Governor Das said. The change in stance effectively means a rate hike is not off the table and there could be possibility of further rate cut.

Update on liquidity:

RBI said liquidity in the system turned into an average daily surplus of Rs 66,000 crore in June after remaining in deficit during April and most of May due to restrained government spending. The central bank injected Rs 70,000 crore in April and Rs 33,400 crore in May on a daily net average basis under the LAF. It conducted two OMO purchase auctions in May amounting to Rs 25,000 crore and a dollar buy-sell swap auction of $5 billion (Rs 34,874 crore) in April for a tenure of three years to create durable liquidity in the system. The apex bank has also announced an OMO auction of Rs 15,000 crore on June 13, 2019.

What’s in it for borrowers & investors?

Borrowers can expect more rate cuts in the future, as monetary policy stance has changed from 'neutral' to 'accommodative'. The repo rate, at which the central bank lends to the system, will come down to 5.75 per cent after the cut from 6 per cent. Likewise, the reverse repo rate has been reduced to 5.50 per cent from 5.75 per cent. With the rate cut, equated monthly instalments, or EMIs, on home loans may come down if banks decide to pass on the benefit to borrowers. Analysts said real estate, NBFC, banking and auto stocks would be key beneficiaries of this rate cut.

Leverage ratio for banks:

RBI said it has decided to lower minimum leverage ratio for Domestic Systemically Important Banks (DSIBs) to 4 per cent from 4.5 per cent under the Basel-III norms and 3.5 per cent for other banks. Instructions in this regard shall be issued before end of June 2019.

Licensing of small finance banks:

RBI in another release said more time is needed to review the performance of payments banks before considering the licensing of this category of banks to be put 'on tap'. ATM interchange fee structure: There have been persistent demands to change

ATM charges and fees.

In order to address these, RBI has set up a committee involving all stakeholders, under the chairmanship of the Chief Executive Officer, Indian Banks' Association (IBA), to examine the entire gamut of ATM charges and fees. The committee is expected to submit its recommendations within two months of its first meeting. The Composition and Terms of Reference of the Committee will be issued within a week."

Updates on Jalan Committee:

The RBI Governor said Jalan Committee is working independently on the issue of the central bank's cash reserve. It is working on its own in an objective manner. It needed some extra time and has been granted it. "We expect the report may come very shortly," he said.

Updates on NBFC:

Governor Das said RBI was closely monitoring the NBFC sector, to ensure financial stability. Even though the central bank does not regulate these shadow banks, Governor Dash said since it is its mandate to ensure overall financial stability, the central bank has been monitoring the situation closely and won't hesitate to intervene if the situation warrants.

Rate cuts unlikely to push credit demand as NBFC crisis deepens:

Fitch Credit growth is unlikely to pick up despite the three successive rate cuts by the central bank due to the capital constraints at banks and the deepening crisis in the non-banking lenders sector, warns a report. The Reserve Bank had cut its key policy rate Thursday by 25 bps, its third such move in successive policy reviews in 2019, to a nine year low to help spur sagging growth. "We expect credit growth to remain slow, despite the latest interest rate cut, as most banks are capital- constrained and non-banking financial institutions are facing tighter funding conditions," global rating agency Fitch said Friday in a note. It said NBFCs currently account for a fifth of the overall credit as against 15 percent five years ago. Meanwhile, on the troubled Dewan Housing Finance, the report termed the recent events as"demise", highlighting the funding risks for the broader NBFC sector. Issues with NBFCs were already known to the market but Dewan became a focus point after the failure of IL&FS

last September contributed to a sector-wide liquidity squeeze as investors turned risk averse, it noted. "Liquidity of NBFCs is sensitive to market sentiment as their business models rely on short-term wholesale funding, which can dry up fast if market sentiment turns negative," the report said and explained that because of these pressures, top NBFCs have begun to explore other sources of funding and are working onto start tapping the overseas bond markets. Accordingly, the agency expects NBFCs to become more regular issuers in the offshore bond markets, which can be "credit positive" if managed prudently. The funding squeeze has led to increased cost for the shadow banking sector and a slowdown in loan growth them, the report said, noting that these players are an important channel for extending credit to the wider economy with wide distribution networks. Non-performing assets-related issues at banks only led to NBFCs' importance growing much higher, it said, adding NBFCs' fast loan growth in an environment of relatively benign interest rates was increasingly funded by short-term funding, in particular, commercial papers issued to mutual funds. It can be noted that in the past as well, analysts have pointed out to asset liability mismatches as the real problem that led to the problems for the NBFCs since the latter half of 2018. Traditionally, the banking system has been an important source of funding for NBFCs due to a push to "priority lending", while the mutual funds segment has also deployed investments. "Both of these funding sources for NBFCs have become more risk-averse, which means that the sector is likely to face higher funding costs and a period of deleveraging, although the better-positioned NBFCs should still be able to achieve loan growth," the agency said.

What ex-IL&FS top brass got for loans? Foreign trips, private jets and chopper rides

Foreign trips, private jet travels, chopper riders and interior decoration at houses aboard -- the probe into the IL&FS saga has unearthed many such inducements that the top brass allegedly got from borrowers in return for faster loans and delayed recoveries. As large-scale manipulations continue to unravel at the once-mighty group, an investigation by the government's white-collar fraud probe agency SFIO has revealed several cases where the top brass got personal benefits from the borrowers of IL&FS Financial Services Ltd (IFIN), the non-banking financial services arm of the Infrastructure Leasing and Financial Services (IL&FS). E-mail trails have revealed deep-rooted connivance between former senior IL&FS officials and Siva Group Chairman C Sivasankaran as loans continued to be ever greened and recoveries delayed, according to officials. The SFIO (Serious Fraud Investigation Office) probe into the affairs of IFIN found that the company had entered into 15 transactions of advancing loans to or investing in debentures of Siva Group companies. Officials said repayment of loans pertaining to only four transactions was done among the total 15 transactions. Based on e mail data, the probe agency found that Sivasankaran arranged hospitality for at least three executives -- Ravi Parthsarathy, Vibhav Kapoor and Hari Sankaran. These included foreign travels, private jets and helicopter rides, booking of resorts and even arranging for interiors of some flats in Brussels (Belgium), according to the officials. In return, the three officials were found to have connived with Sivasankaran and influenced decision-making process at IFIN, including those related to recovery and disbursement of loans and fees, they added. Sivasankaran, described as the "controlling will and mind of the Siva Group", had personal relationship with Ravi Parthasarathy and Hari Sankaran, as per the charge sheet filed by the SFIO last week. New loans were extended to the group to facilitate repayment of existing loans, which were required to be classified as non-performing assets. The fraudulent circuitous transactions among IFIN and Siva Group companies had aided to project a rosy picture of financial statements and defraud the lenders of IFIN, the officials said. The massive scam at IL&FS came to light last year after several group entities defaulted on repayments due to liquidity crunch. Amid the situation raising concerns about the overall financial system, the government superseded the IL&FS board. At the end of March 2018, the sprawling IL&FS group's debt burden was estimated to be more than Rs 90,000 crore. The SFIO has filed the first charge sheet after inspecting accounts of nearly 400 entities, an extensive forensic audit, data collected from desktops and laptops seized from various IL&FS offices as well as e mails extracted from IL&FS servers. Besides, RBI inspection reports, minutes of meetings, assessment reports from the government-appointed IL&FS board and other documents were also taken into consideration. The charge sheet, filed before a special court in Mumbai, has accused 30 entities/ individuals of various violations and offences, including of financial fraud. The former top-management members of IFIN have been charged with committing fraud with intent to injure the interest of the company, its shareholders and creditors, resulting in wrongful loss to the company. The white collar crime probe agency has charged former top management members of IFIN of forming a "coterie" with its auditors and independent directors to defraud the company while running the business as their "personal fiefdom". The 'coterie' identified by SFIO included Ravi Parthasarthy, Hari Sankaran, Arun Saha, Ramesh Bawa, Vibhav Kapoor and K Ramchand, who were in the top management of various IL&FS firms. SFIO said its probe revealed that IFIN, as an NBFC, extended loans to companies of Siva, ABG, A2Z, Parsvnath and other corporate groups, though a number of them were not servicing their debt obligations timely.

<u>Paytm Payments Bank ahead of major banks in digital transaction target</u>

NEW DELHI: Paytm Payments Bank has received a target of 501.16 crore digital transactions for the financial year 2019-20 from the Ministry of Electronics and Information Technology (MeitY), higher than the targets set for major banks including HDFC Bank, ICICI Bank and Punjab National Bank. In a statement, Paytm Payments Bank said it is only behind the State Bank of India, which has the highest target for digital transactions. Only five other banks have received a target of more than 100 crore transactions, which include HDFC Bank, ICICI Bank, Axis Bank, Punjab National Bank and Union Bank of India. "To promote digital transactions in India, MeitY sets the target for all banks and closely monitors the progress on it. This target is significant as it is much higher than the target set for major banks like HDFC, ICICI and Punjab National Bank. It reaffirms Paytm as the leader of digital payments in the country," the statement said. In FY 2018-19, the payments bank surpassed the target of 354 crore transactions and recorded 393 crore digital transfers. Paytm Payments Bank has a market share of 19 per cent and 32 per cent respectively, in terms of mobile banking and UPI transactions. "Nearly a third of the total mobile banking transactions in India are powered by Paytm Payments Bank and it processes over Rs 3 lakh crore worth of digital transactions on an annual basis," it said. As of April 2019, Paytm Payments Bank had more than Rs 500 crore deposits in savings accounts, which makes it the largest payments bank in India in terms of deposits, the statement said, adding that the bank is aiming to introduce more products and features to increase the monthly processing of savings account payments from Rs 24,000 crore to Rs 40,000 crore in FY 2019-20.

<u>Corporate affairs ministry, Sebi to start automatic data exchange</u>

NEW DELHI: Bolstering efforts to curb white collar frauds, the corporate affairs ministry and markets watchdog Sebi will start automatic sharing of data between them. The move also comes against the backdrop of concerns over corporate governance practices amid instances of misdoings and financial irregularities. The ministry and Sebi Friday entered into a formal memorandum of understanding (MoU) for data exchange. The pact will facilitate the sharing of data and information between Sebi and the ministry on an automatic and regular basis. "It will enable sharing of specific information such as details of suspended companies, delisted companies, shareholding pattern from Sebi and financial statements filed with the Registrar by corporates, returns of allotment of shares, audit reports relating to corporates," an official release said. Both the sides, on request, will share any information available in their respective databases for the purpose of carrying out scrutiny, inspection, investigation and prosecution. A Data Exchange Steering Group also has been constituted for the initiative, which would meet periodically to review the data exchange status and take steps to further improve the effectiveness of the data sharing mechanism, the release said. "MoU comes in the wake of increasing need for surveillance in the context of corporate frauds affecting important sectors of the economy. "As the private sector plays an increasingly vital role in economic growth, the need for a robust corporate governance mechanism becomes the need of the hour," as per the release. The MoU was signed by K V R Murty, Joint Secretary in the ministry, and Madhabi Puri Buch, a Whole Time Member at Sebi.

IFIN case: Deloitte ignored RBI rules, finds SFIO probe

The plot thickens around top-notch audit firm Deloitte and its once-prized client IFIN, the company at the centre of the IL&FS fiasco. Deloitte, according to the Serious Fraud Investigation Office (SFIO), had disregarded the Reserve Bank of India's regulations, turned a blind eye to IFIN's 'ever greening' of loans, and never cross-checked any of the 'tutored end-use certificates' the company used to mislead lenders. The allegations — based on emails, depositions, fund-flow information and interrogations of persons linked to IFIN — are part of the agency's investigation report, sources told ET.

IGNORING NORMS

In his statement recorded on oath, Rakesh Jain, senior manager at Deloitte, told SFIO that the RBI circular was never referred to him or any of his team members by seniors and partners of Deloitte. The RBI master circular restricts a non-banking financial company (such as IFIN) from taking bank loans to fund activities like inter-corporate deposits and lending to subsidiaries. "I am not aware of the circular referred above… The compliance to said RBI master circular was not part of audit plan," said Jain. Since bank term sheets or loan agreements take into account the conditions imposed by RBI, auditors, according to SFIO, are required to cross-check whether a company has used bank borrowings to fund restricted businesses. Deloitte was the sole auditor of IFIN for about a decade till 2016-17. In 2017-18, the company was jointly audited by Deloitte and BSR, an affiliate of another Big 4 firm KPMG. Loan Ever-greening A Deloitte spokesman declined to comment on the allegations and findings as the firm has not been served the charge sheet by SFIO. While scanning records in the course of the investigation, the SFIO team found a document in the email server of IL&FS prepared by the Deloitte engagement team, identifying the funding of borrowers for paying principal and interest. It forms the basis of the SFIO allegation that Deloitte was aware of IFIN's loan ever-greening — a ploy to mask defaults and losses by giving new loans to delinquent borrowers for servicing old borrowings. Deloitte, said the agency report, was aware of the "modus operandi of funding the defaulting borrowers for payment of interest and principal in a fraudulent manner by the management again and again to window dress the asset book of the company for several years". When asked about the email, Deloitte partner Udayan Sen denied knowledge of the document, saying that it was an "interim work paper and not to be relied upon". However, the report observes, that Sen "had not stated about the manner in which doubts raised over the lending accounts of IFIN were dispelled before issuing an unqualified opinion on the financial statements". Rakesh Jain in his statement to SFIO admitted that "over the years or in a particular year (based on sample-based audit) there were a few borrower groups such as SKIL, Flemingo, Varun, Parsvnath, KVK, Adhunik, lnd Bharat, Unitech, Kohinoor, HDIL, DB realty etc in which the above mentioned self-funding of interest was observed. These observations were discussed with seniors and partners in Deloitte and subsequently the same was discussed by them with the management of IFIN (sic)." The IFIN management, in turn, defended its stand by telling the auditor that the new loans given to the same group were extended to different companies in accordance with the credit policy of IFIN and was within the NBFC prudential framework.

TUTORED CERTIFICATES & WHISTLEBLOWERS

Since 2009-10, IFIN obtained ‘tutored end use certificates’ from chartered accountants AP Shah & Associates to present a deceptive picture to lending banks. When questioned by the agency, Alay P Shah, partner of the CA firm, said, “The certificates were sent on email and based on their assurance, I used to certify the same… Since the company was a reputed one and they had reputed auditors where we used to see the audited balance sheet on year-to-year basis, we had no question of doubting the integrity of the documents and so the certification was given on good faith with the assurance that the documents would be available whenever required (sic).” Many of these sharp practices authorised by Ramesh Bawa, the then CEO of IFIN, were pointed out in two whistleblower letters to RBI, the IFIN audit committee and auditors, among others. While the IFIN board had taken cognisance of the letters and appointed CA firm Khandelwal Jain & Associates to report on the issues, the scope was to verify whether procedural issues of giving loans as laid down in the policies were followed or not. “It is noteworthy that the review did not focus on lending to the borrowers again and again for repayment etc,” said the SFIO report. Bawa was part of the group led by Ravi Parthasarathy, ex-chairman of IFIN. Emails scanned by SFIO reveal that the group concealed adverse information relating to the performance of IFIN and how they misused their positions. SFIO has given a clean chit to credit rating agencies as they were relying on audited reports.

Bank of Maharashtra cuts one-year MCLR by 0.10 pc to 8.60 pc

New Delhi: A day after the RBI cut the key repo rate, public sector Bank of Maharashtra Friday announced to cut the benchmark one-year MCLR by 0.10 per cent to 8.60 per cent. Bank of Maharashtra has reviewed and reduced its marginal cost of funds based lending rates (MCLR) with effect from June 7, 2019, it said in a release. The one-year MCLR is the benchmark against which most customer loans such as auto, personal and home loans are priced. Among other loan tenors, the overnight MCLR will attract an interest of 8.15 per cent, down by 0.05 per cent, while the three-month tenor rate has been slashed by an equal margin to 8.40 per cent. The Reserve Bank in its second bi-monthly policy decision announcement Thursday cut the repo rate -- at which it lends to banks -- by 0.25 per cent to 5.75 per cent, aimed at spurring demand and boost the economy. RBI Governor Shaktikanta Das had expressed concerns that banks were slow in transmitting the benefits to the consumer despite successive rate cuts. India's economic growth is estimated to have slowed to a five-year low of 6.8 per cent in 2018-19. The RBI has also cut down the GDP expansion forecast to 7 per cent for the current fiscal, against its earlier projection of 7.2 per cent due to slowdown in domestic activities and escalation in global trade war.

SBI to link home loans to repo rate from July

After linking its short-term loans and large savings deposits rates to the repo rate, the largest lender State Bank Friday said it will introduce repo-linked home loans from July. The lender has also reduced interest rate on cash credit account (CC) and overdraft (OD) customers with limits above Rs 1 lakh, after the RBI reduced the repo rate by 25 basis points Thursday. "We will introduce repo-linked home loans from July 1," SBI said in a late evening statement. The monetary policy committee had unanimously decided to reduce repo rate by 25 basis points to 5.75 percent in the second bimonthly policy Thursday, taking it down to a nine- year low, citing sagging growth and to cushion the rising headwinds to the economy. It was the third consecutive repo rate cut by RBI, with cumulative reduction of 75 basis points in 2019, so far. "The benefit of reduction in the repo rate by 25 bps has been passed in its entirety to our CC/OD customers (limits above Rs 1 lakh), with effect from July 1," SBI said. The effective repo-linked lending rate (RLLR) for CC/ OD customers is 8 percent now, it said, while for savings deposits above Rs 1 lakh the new rate would be 3 percent. In March, the bank had linked all CC accounts and ODs with limits above Rs 1 lakh to the repo rate plus a spread of 2.25 percent. For above Rs 1 lakh, it had set its savings deposit rates to 2.75 percent below the repo rate.

Piyush Goyal wants RBI to extend $25 bn line of credit for exports, funds at competitive rates

New Delhi: Commerce and Industry Minister Piyush Goyal said Friday that the RBI has been asked to extend USD 25 billion (Rs 1,73,150 crore) line of credit for exports and ensure that exporters get funds at interest rates not exceeding 2 per cent above LIBOR. The minister was speaking at a meeting with participants from various public and private sector banks, RBI, EXIM bank, exporters' organisations to look into the issues pertaining to export credit sector. "Goyal put forth the proposal to make credit in foreign currency available to exporters at London Interbank Offered Rate (LIBOR) plus maximum 200 basis points and directed RBI, ECGC and other banks to work out the modalities to make it possible," a commerce ministry statement said. The Reserve Bank of India (RBI) has been asked to look into USD 25 billion line of credit from its foreign currency reserves for swap to well performing banks, and to also look into priority sector lending norms for export credit, it added. Libor is a widely-used interest rate global benchmark. To take Indian economy to $1 trillion exports each in goods and services in the next five years, the minister said availability of credit at low rate of interest is important. He said that it is a joint responsibility of banks and government to ensure that export credit at competitive rates is available to businesses. "The volume of export credit is on a declining trend for the last few years and the situation needs urgent measures," he said. Talking on interest subsidy scheme, he asked the participants to find ways to maximise the impact of such subvention. He suggested that the subvention scheme may be used better as backstop guarantee for credit, thus increasing the coverage of ECGC (Export Credit Guarantee Corporation) for export lending purposes. The minister asked RBI, EXIM Bank and SBI to study the matter in detail and present it in the follow up meeting to be held on June 30 in Mumbai. During the meeting, Federation of Indian Export Organisations (FIEO) has been asked to submit a report within 30 days on shifting from subsidy to cheaper availability of loan in foreign currency to exporters. The federation was also asked to suggest ways for further simplification of banking procedures for exports. The other issues which were deliberated in the meeting, include bank coverage charges, exports to Iran, processing fee, collateral requirements and loan disbursals. Goyal directed the concerned departments and participants to take note and come up with solutions in a time bound manner on these matters. The meeting was attended by the representatives of the Ministry of Finance and Commerce. Officials from RBI, State Bank of India, Canara Bank, Punjab National Bank, HDFC Bank, Kotak Mahindra Bank, Axis Bank, Barclays Bank, Citi India, Bank of America, EXIM Bank, ECGC, and Indian Banks' Association also attended the meeting.

Niti Aayog readies list of over 50 CPSE assets for sale

NEW DELHI: In what could set the stage for big-ticket asset monetisation, Niti Aayog has identified more than 50 assets including land and industrial plants of state-owned enterprises NTPC, Cement Corporation of India, Bharat Earth Movers Ltd. and Steel Authority of India Ltd. that could be put on the block. "We are looking at asset monetisation," a government official said, adding that Niti Aayog has sent a list to the Department of Investment and Public Asset Management (DIPAM). The official said the list will help the administrative ministries or the public sector companies to kick start the sale process. The list was drawn up by Niti Aayog CEO Amitabh Kant in consultation with the secretaries of nodal ministries. "We will keep coming up with new lists as and when required over the course of time," another official said. The official said NTPC's Badarpur plant, which is closed, has about 400 acres of land Among the other assets are brown field projects of companies including SAIL. The government raised Rs 2,350 crore in the first two months of the current financial year, for which a disinvestment target of Rs 90,000 crore has been set. In 2018-19, it raised Rs 84,972.16 crore against the budgeted target of Rs 80,000 crore. Earlier, DIPAM had identified some assets that were hived off from companies such as Scooters India, Bharat Pumps & Compressors, Project & Development India, Hindustan Prefab, Hindustan Newsprint, Bridge & Roof Co. and Hindustan Fluorocarbons. These firms are now up for strategic sale. In February, the cabinet had cleared the institutional framework for monetisation of non-core assets of stateowned companies under strategic disinvestment. This included setting up of a ministerial panel led by the finance minister to oversee disinvestment and restructuring among public enterprises. Earlier this month, ET reported that the government will soon reactivate the ministerial panel, called the alternate mechanism. Once the panel approves monetisation of an asset, the process must be completed within a year. It will be part of the annual memorandum of understanding that a state-owned company signs with the government. The government has approval for the strategic sale of 24 companies including Air India.

ET View: New RBI Circular offers defaulters little wiggle room

The new Prudential Framework for Resolution of Stressed Assets issued by the Reserve Bank of India, in fulfilment of the central bank's promise to come out with a fresh set of directions after its February 12 Circular had been struck down by the Supreme Court, does not offer defaulting companies any substantial relief from the rigorous discipline laid down in the earlier circular. The essential difference is two-fold: one, banks and defaulters get additional 30 days for implementation of the resolution plans that still have to be put in place for them in every individual case, and two, defaulters get three rungs to descend to Non-Performing Asset hell, instead of plunging straight to that depth, as in the February 12 circular. After one day's delay in debt servicing, the defaulter would be labelled Special Mention Asset 1, and stay there till day 29, after which and till day 59, the defaulter would be Special Mention Asset 2. If repayment still does not happen, the defaulter would descend to Special Mention Asset 3 during days 6-90 of the initial default, and then be labelled an NPA thereafter. But the RBI also says that after Day 1 of default, the asset would lose the status of a standard asset. In the first 30 days since initial default, a review would be conducted of the defaulting loan and a resolution plan finalised with the consent of 75% of the lenders. The Resolution Plan has to be implemented within 180 days of conclusion of the review. The net effect is that the resolution plan has to be implemented within 210 days of the initial default, instead of 180 days of the initial default. Companies have been lobbying to avoid that initial labelling as a defaulter. That wish has not been granted. The RBI has also asked for additional provisioning, to concentrate the minds of the banks on tackling bad loans.

Government refutes claims of spike in bank frauds

NEW DELHI: The government has strongly refuted claims of a spike in bank frauds in recent times and said it has already taken steps to address laxity in the banking system through comprehensive reforms. The finance ministry's statement, issued late Tuesday evening, comes in response to reports citing recent RBI data that over 6,800 cases of bank fraud involving Rs 71,500 crore have been reported in 2018-19 "The fact is that this data is by the year of reporting and not the year of occurrence of the fraud or sanction of loan, letter of undertaking etc., which in many cases is of an earlier period," the finance ministry's statement noted. The ministry said it had previously clarified this position in January 2019 in a reply to a question in Rajya Sabha. Elaborating on the measures taken, the statement said the government has issued instructions that all accounts exceeding Rs 50 crore, if classified as NPAs, be examined by banks from the angle of possible fraud. "In addition, public sector banks (PSBs) have also been advised to seek a report on the borrower from the Central Economic Intelligence Bureau, in case an account turns NPA," it said giving details of the past measures taken to address the issue of banks frauds. The finance ministry observed that proactive action has been taken against wilful defaulters, with FIRs being registered by PSBs against 2,881 wilful defaulters. The statement said for enforcement of auditing standards and ensuring the quality of audits, the government has established the National Financial Reporting Authority as an independent regulator.

RBI formed panel suggests roping in local retailers to act as cash points

MUMBAI: A high-level Nandan Nilekani-led panel has suggested the RBI rope in local business correspondents and local retail stores to act as cash points in semi-urban centres. With banks already cutting down on their ATM deployment, such a model may replace teller machines as the primary source of cash in semiurban centres, say bankers and industry experts. The Cash In Cash Out (CICO) network proposed by the committee is a network of cash disbursement points where a customer can seamlessly convert digital money to physical cash using interoperable mechanisms such as QR code and Aadhaar-enabled payment channels. The proposed model is among the key recommendations pushed by the committee to achieve New Delhi's vision of a digitally-driven, cashless economy. "In my sense, the CICO model would leverage three crore PoS retail points for cash out facilities. ATM wouldn't be the primary source of CICO as most of these machines are deployed at major cities. The next stage of financial inclusion would be led by local kirana stores and business correspondents," said Deepak Sharma, chief digital officer, Kotak Mahindra Bank. With increased stress by the government on the Direct Benefit Transfer (DBT) scheme, the panel, led by the Aadhaar architect, also says that the ease of converting digital credit to physical money is the key to the next step towards financial inclusion. "For the society to change, and transition from a cash-driven society to a less cash society, users will reduce their cash holdings only if they are confident of being able to do transactions digitally and have a safety net of a robust Cash In Cash Out (CICO) network," as per the report, published by the RBI on Monday. Over the last one year, 30 of the 49 banks have reduced the number of active ATMs deployed with the largest public-sector bank shutting down close to nearly 1,000 ATMs, as per latest RBI data. In the same period, banks have on boarded nearly 6.4 lakh new PoS retailers. Additionally, the committee has also recommended the banks to make merchant discount rates (MDR), or what a merchant pays for transactions to the bank, more competitive by making the pricing mechanism market-led as against fixed.

In its first Parliament session, government plans to convert 10 ordinances into law

NEW DELHI: In the first session of the 17th Lok Sabha, the new government plans to convert 10 ordinances, including the one to ban the practice of instant triple talaq, into law, official sources said Thursday. The ordinances were issued in February-March this year by the previous government as these could not be converted into Acts of Parliament in the last session of the 16th Lok Sabha. Since the Narendra Modi government returned to power in the just-held Lok Sabha elections, it has decided to give a fresh push to these proposed laws in the newly constituted Lok Sabha. These ordinances will have to be converted into laws within 45 days of the beginning of the session, else they will lapse. Besides the ordinance on triple talaq, the other ordinances lined up are: the Indian Medical Council (Amendment) Ordinance, the Companies (Amendment) Ordinance, the Banning of Unregulated Deposit Schemes Ordinance, the Jammu and Kashmir Reservation (Amendment) Ordinance, the Aadhaar and other laws (Amendment) Ordinance, the New Delhi International Arbitration Centre Ordinance, the Homeopathy Central Council (Amendment) Ordinance, the Special Economic Zone (Amendment) Ordinance and the Central Educational Institutions (Reservation in Teachers' Cadre) Ordinance. The Indian Medical Council (Amendment) Ordinance allows a committee run the scam-tainted Medical Council of India (MCI). The Banning of Unregulated Deposit Scheme Ordinance seeks to curb the menace of ponzi schemes and make such unregulated deposit schemes punishable. The ordinance, the government had said, will help put a check on illicit deposit taking activities such as

Saradha scam and Rose Valley chit fund scam in the country that dupe poor and the financially illiterate of their hard earned savings.

Bankers, financial players hail RBI repo rate cut, hope consumer demand to get a boost

New Delhi: Banking and finance experts hailed the RBI's decision to cut the short-term lending rate, terming it as a step in right direction that could help stimulate consumer demand. The Reserve Bank in its second bi-monthly policy statement for 2019-20 announced to cut the key repo rate, at which it lends to banks, for a third straight time by 25 basis points to 5.75 per cent. "The policy was very positive and was reinforced by unanimous voting and the change in stance to accommodative. The statement's focus on supporting growth and bolstering private investment as long as inflation remains within the mandate, is also encouraging and leads us to believe that more accommodation is on the cards," said B Prasanna, Group Head -Global Markets- Sales, Trading and Research, ICICI Bank. Vasu Ramaswami, COO, Muthoot Fincorp said the latest rate drop should help in improving consumption demand, particularly for the common man, especially once banks decide to pass this rate change to their customers. On the NBFC crisis, Governor Shaktikanta Das said that the RBI is closely monitoring the situation and there is ample liquidity in the market currently. "The unanimous decision by the Monetary Policy Committee (MPC) to cut the repo rate by another 25 bps is a step in the right direction," said Khushru Jijina, MD, Piramal Capital and Housing Finance. The downward revision of growth projection to 7 per cent calls for implementation of additional rapid policy interventions by RBI as well as the government. NBFCs are instrumental in providing credit to MSMEs and real estate sectors and more decisive and pro-active policy measures are required to address the current liquidity crisis, Jijina said Shriram Transport Finance MD & CEO Umesh Revankar said consumer spending has been weak on auto sales, real estates because of high interest rates and RBI should open up funding to retail NBFCs through banks that will stimulate consumer spending. "We may see more measures in the coming days that will help achieve faster and sizeable rate transmission - a pass through of 75 basis of the three rate cuts should happen in the coming months...This may also imply that deposit rates may start falling sharply in the coming days," said R K Gurumurthy - Head Treasury, Lakshmi Vilas Bank. RBI has also raised marginally the retail inflation projection for the first half of this fiscal to 3-3.1 per cent from 2.9-3 per cent projected earlier. The decision to cut the repo rate by 25 basis points is a welcome one, this was expected, given the backdrop of low inflation and rising growth concerns in the economy, said Anshuman Magazine, Chairman & CEO, India, South East Asia, Middle East & Africa, CBRE. The rate cut coupled with the budget stimulus for the economy, and the real estate sector in particular, will impact consumer sentiments positively, Magazine said. Mahindra Group CFO, VS Parthasarathy said while the rate cut and stance is good, the transmission and execution will make it great and help the country to rise. "Banking and NBFC are the backbone of the country which need to be nursed back to health. Liquidity is the blood in the veins of this country," he said.

IL&FS case: RBI scans internal processes to identify any lapses

The banking regulator is looking into potential internal lapses in monitoring IL&FS and its units after a federal probe agency pointed to oversights that may have played a role in causing the localised debt problem at the infrastructure financier to snowball into an industry-wide crisis. “The central bank has begun investigating internal lapses in regulating IL&FS and IFIN,” said a source close to the development. “In its past audit reports, the regulator had mentioned the lapses but failed to take appropriate actions. For the first time, an investigating agency has questioned the regulator.” Mint Road is looking at its own processes related to the IL&FS oversight after observations by the Serious Fraud Investigation Office (SFIO), which in its charge sheet suggested the Reserve Bank of India (RBI) conduct an internal probe. It also suggested the RBI take suitable policy measures to prevent such fraudulent action. RBI did not respond to an email query. In its inspection report 2016, RBI had observed that although the leverage of IL&FS stood within the prescribed limit of 2.5 times, the group's leverage stood higher at 7.14, which was a matter of concern. A copy of that report has been seen by ET. RBI had asked the company to submit a time-bound action plan for reducing the group leverage ratio. The report talked about deficiencies in credit appraisal while giving loans to group entities. SFIO, in its charge sheet, said that RBI had repeatedly pointed out the non-compliance with group exposure norms and wrong calculation of Net Owned Funds (NOF) in its Inspection Reports for the year 2015 onwards. But no penalties were imposed during the period and IFIN was allowed to continue its operations without any corrective action. SFIO said in the charge sheet that action at the right time may have prevented the matter from becoming as widespread as it now is. The charge sheet also said that IFIN did not disclose the negative NOF amount as assessed by the regulator for FY15, FY16 and FY17 in its financial statements. RBI's inspection report said that IL&FS and its group entities followed a unified memorandum for approvals on transactions, bid submissions, advisory services, investments, and loans. Irrespective of the value of transactions, all approvals for the company and its subsidiaries were given by directors and chairman of the company. "As a matter of good corporate governance, the designation of the approvers should be mentioned in the document instead of names. A committee of directors of individual group entities should be the approver of high-value transactions instead of individuals," said the RBI's inspection report. RBI had also observed that the investment policy did not cover classification of investment as current or non-current, value of investments and identification of investments as non-performing investments. Also, compliance with the central bank's guidelines was not part of the RBI audit. As on March 31, 2015, RBI said that IL&FS Financial Services' reported owned fund of Rs 4,353.23 crore was assessed at Rs 3,461.80 crore. The difference of Rs 891 crore was due to reduction of premium of redeemable preference shares of Rs 400 crore from free reserves, identification of additional provision for investments of Rs 250 crore, and reversal of interest accrued on investments of Rs 182.5 crore. Preference shares that carried a premium were redeemable in 2021. The total premium collected by the company on the preference shares amounted to Rs 400 crore, which was also outstanding as on March 31, 2015. RBI said that since the preference shares were redeemable, the same was not considered to be part of the free reserves. The new IL&FS board led by Uday Kotak had taken over in October and a resolution process is underway. The board is seeking to sell assets in sectors such as roads, energy, and financial services to reduce outstanding debt, which stands at roughly Rs 1 lakh crore.

RBI ban on SR Batliboi & Co may impact audit of large lenders

The Reserve Bank of India's one-year ban on audit firm SR Batliboi & Co could impact the audit of large lenders, including HDFC Bank, Kotak Mahindra Bank and IndusInd Bank. Batliboi, an affiliate of global auditing firm EY, also audits South Indian Bank, Bandhan Bank and AU Small Finance Bank. The central bank's action against Batliboi on Monday came after it found several lapses in the audit report of Yes Bank, said a person privy to the matter. The action by the central bank was based on the enforcement action framework put out by the RBI last year in June which listed audit lapses resulting in errors in a bank's financial statement, wrong certifications and information given by auditors, misconduct of auditors and any other violations of RBI directions. "The firm was asked to make some representations about a year back for the Yes Bank divergence issue. The representations and explanations regarding the divergence and other issues in the audit were explained to the RBI," the person said. The Securities and Exchange Board of India (Sebi) will seek details of the RBI report on Batliboi before deciding whether it can audit other listed companies. SR Batliboi also audits over 150 companies including Reliance Industries, Tata Power, Voltas, Vodafone Idea, Tata Communications and Vedanta. The market capitalisation of companies audited by EY group through its affiliate firms was about 24.1% of the total market value of all listed NSE companies in 2018-19. An official spokesperson for SRBC & Co said, “We have learnt of this development from the press release issued by the RBI and are not aware of further details. Accordingly, we will be unable to comment further at this stage.” The RBI had not sent an official communication to EY regarding the ban. “RBI has a hawk's view of the matter but as statutory auditors we don’t have that view," said a senior chartered accountant. This ban comes around the time when other two major multinational auditors — Deloitte and KPMG — are under scrutiny for their role in auditing IL&FS Financial Services. SR Batliboi had ceased to be the auditor of Yes Bank from the fiscal ended March 2016 as part of the mandatory auditor rotation. BSR & Associates, a KPMG affiliate, took over as the auditor of Yes Bank thereafter.

Bank of Baroda declares Dighi Port chief Vijay Kalantri a 'wilful defaulter'

In a financial scandal evoking Nirav Modi and Vijay Mallya, a leading industrialist in Mumbai, who is well connected to the corridors of power, has been declared a “wilful defaulter” by the Bank of Baroda. Vijay Goverdhandas Kalantri, chairman and managing director of Dighi Port, and his son Vishal Kalantri, a director of the port, owe approximately Rs 3,334 crore to a consortium of 16 Indian banks led by Bank of India, for loans given to develop the port. The Bank of Baroda placed a public notice in a Mumbai newspaper on Sunday, 2 June, which states: “Notice is hereby given to the public at large that Vijaya Bank (now Bank of Baroda) has declared the following persons as wilful defaulters, in terms of the bank’s/RBI’s rules and regulations. 1) Dighi Port Limited , (borrower) 2) Vishal Vijay Kalantri, director and guarantor and 3) Vijay Goverdhandas Kalantri, director and guarantor. The bank has sent a suitable communication to the borrower/guarantor informing the decision of the bank to declare him/ them as a wilful defaulter. As permitted by the RBI, the bank publishes photos of the wilful defaulters for the information of the public at large.” TOI tried to reach Vijay Kalantri but he was not reachable. Dighi Port is being developed on the two banks of Rajpuri Creek as Maharashtra’s first private sector port with direct berthing facilities and modern cargo handling equipment. The corporate insolvency. resolution process of Dighi Port was admitted by Mumbai Bench of NCLT in order dated March 25, 2018 and in May NCLT accepted the resolution plan submitted by JNPT for Dighi Port. Kalantri also heads Balaji Infra Projects, which is developing the port, and he is the Honorary Consul of the Consulate of Uzbekistan in India.

Niti Aayog readies list of over 50 CPSE assets for sale

NEW DELHI: In what could set the stage for big-ticket asset monetisation, Niti Aayog has identified more than 50 assets including land and industrial plants of state-owned enterprises NTPC, Cement Corporation of India, Bharat Earth Movers Ltd. and Steel Authority of India Ltd. that could be put on the block. “We are looking at asset monetisation,” a government official said, adding that Niti Aayog has sent a list to the Department of Investment and Public Asset Management (DIPAM). The official said the list will help the administrative ministries or the public sector companies to kick-start the sale process. The list was drawn up by Niti Aayog CEO Amitabh Kant in consultation with the secretaries of nodal ministries. “We will keep coming up with new lists as and when required over the course of time,” another official said. The official said NTPC’s Badarpur plant, which is closed, has about 400 acres of land. Among the other assets are brown-field projects of companies including SAIL. The government raised Rs 2,350 crore in the first two months of the current financial year, for which a disinvestment target of Rs 90,000 crore has been set. In 2018-19, it raised Rs 84,972.16 crore against the budgeted target of Rs 80,000 crore. Earlier, DIPAM had identified some assets that were hived off from companies such as Scooters India, Bharat Pumps & Compressors, Project & Development India, Hindustan Prefab, Hindustan Newsprint, Bridge & Roof Co. and Hindustan Fluorocarbons. These firms are now up for strategic sale. In February, the cabinet had cleared the institutional framework for monetisation of non-core assets of stateowned companies under strategic disinvestment. This included setting up of a ministerial panel led by the finance minister to oversee disinvestment and restructuring among public enterprises. Earlier this month, ET reported that the government will soon reactivate the ministerial panel, called the alternate mechanism. Once the panel approves monetisation of an asset, the process must be completed within a year. It will be part of the annual memorandum of understanding that a state-owned company signs with the government. The government has approval for the strategic sale of 24 companies including Air India.

About 100 mn people make e-Payments once a month, claims Nandan Nilekani-led panel

BENGALURU: The number of people who use digital payments at least once in a month stands at 100 million currently, according to the Committee on Deepening of Digital Payments. This could be one of the first official acknowledgements of the total number of digitally transacting active users in India. The committee has predicted the number to go up three times by 2021. “The real figure could be anywhere between 70 and 80 million as well; even for UPI (Unified Payments Interface), the number of unique handles issued has not crossed 100 million,” said a senior banker who did not wish to be named. The committee, formed by the RBI, was chaired by Infosys cofounder Nandan Nilekani with four other eminent professionals as members. Further, the committee has also devised a means to calculate the number of digital transactions per annum per capita. For India, it stands at 22 currently, up from 2.3 in 2014. The committee, which made several recommendations, has been silent on the formation of a separate body to govern the digital payments ecosystem, said industry sources. The topic was much discussed when an inter-ministerial panel suggested — as an amendment to the Payment and Settlement Systems Act — taking away payments regulation from the purview of the RBI. The banking regulator had issued a dissent note against this move, identifying payments as an integral part of the banking ecosystem which it governs. “The committee has indicated that the regulator has facilitated a lot of innovation in digital payments, but has stayed away from the specific topic of a separate payments body,” said the banker quoted above. Cyber security specialists pointed out that the committee could have set out more concrete recommendations on fraud prevention in digital transactions. It has suggested setting up of a fraud detection registry, periodic publishing of fraud data and preventing payment applications from running on insecure devices. “It could have suggested risk-based authentication,” said a senior executive of a Mumbai-based payments security company. “Among other issues which need attention are increased awareness about payment council standards and severe shortfall of trained cyber security professionals.” Major issues around merchant discount rate to push digital payments, access of non-banks to bulk fund transfer mechanisms like Real Time Gross Settlement (RTGS) and promotion of payments through feature phones are a few of its major recommendations. These, industry insiders said, would help the payments sector grow faster. “It is up to the central bank to incorporate the suggestions into the Vision document for 2019-21, which is what the RBI will closely follow in terms of policy shifts for the future,” said a top executive of a payments company.

State Bank of India "very closely" monitoring exposure to shadow banks

BENGALURU: State Bank of India said that they are “closely monitoring” the financial health of the troubled housing financiers Deewan Housing Finance (DHFL), who delayed on their interest payments to investors on Tuesday. The country’s largest lender affirmed that their exposure to NBFC sector still is “good” and that “appropriate actions” are being taken for specific stressed accounts. “SBI has been receiving queries on the impact that recent developments in accounts like DHFL could have on the Bank and on the system,” said an SBI spokesperson in a statement. “We have been very closely monitoring its exposures in the NBFC sector for the past 10 months and taking action as deemed appropriate. Challenges faced by accounts like DHFL have already been factored in when we have given our estimate for the stress that the Bank would have to deal with in FY 19-20 and included in our estimates for slippage and loan loss provisioning for the current financial year.” At least three rating agencies – Crisil, ICRA and Care Ratings – have already downgraded debt securities to ‘D’ or default category. SBI has a loan exposure of Rs.11000 crore in DHFL till last year’s December quarter as per latest available data. A CLSA estimate shows that of DHFL’s Rs.1 trillion debts as of December quarter of which 38% is with banking sector causing worry among investors. DHFL on Monday had issued a statement to its investors claiming that the non-payment of interests on borrowings ‘delays’ rather than ‘defaults’. In a separate statement on Wednesday following the downgrade DHFL said “the action taken by rating agencies is extremely surprising as the company has been making substantial efforts in ensuring no defaults on its financial obligation…Since September 2018, DHFL has

Fincare SFB, Kookmin Bank get included into second schedule of RBI Act

Mumbai: Fincare Small Finance Bank and Kookmin Bank have been included in the second schedule of the Reserve Bank of India Act, according to RBI notifications. Fincare Small Finance Bank was included in the Second Schedule to the Reserve Bank of India Act vide notification dated March 28, according to an RBI notification on Thursday. The central bank in separate notification said that Kookmin Bank has been included in the Second Schedule vide notification dated April 4. Fincare Small Finance Bank in a statement said that as a Scheduled Commercial Bank, it can now broad-base its lines of funding and liquidity facilities. The Bank can issue certificates of deposits and get access to interbank borrowings at competitive interest rates, enabling it to bring down its cost of funds, the bank said Thursday. Besides, it can also get deposits from new sources such as governments, public sector undertakings, corporates, mutual funds, insurance companies and other market participants. "This status will help the Bank expand our liabilities base at more competitive rates - be it through new instruments such as CDs, access to new sources of liabilities such as mutual funds, government and public sector institutions, or through access to the RBI's facilities for liquidity management," said Rajeev Yadav, the MD & CEO of Fincare Small Finance Bank. Fincare SFB, earlier Disha Microfin, was one of the 10 entities to receive the Small Finance Bank licence from the RBI in September 2015 and commenced banking operations in July 2017.

SFIO wants DSK Group promoters to be prosecuted

NEW DELHI: The Serious Fraud Investigation Office has recommended prosecution of the promoters of Pune-based DSK Group in a Rs. 2,043-crore scam for allegedly diverting funds and swindling investors. Deepak Kulkarni and his wife Hemanti Kulkarni, who served as chief financial officer, allegedly siphoned funds from the group and defrauded thousands of investors across Maharashtra. The SFIO has submitted its report to the ministry of corporate affairs, a government official said. The DSK Group is a conglomerate with operations in sectors including real estate, automobiles and education. The SFIO has alleged in its report that the Kulkarnis created a partnership firm that would accept deposits from homebuyers and then lend those funds to another group entity, DSK Developers. This would saddle the company with an “additional interest burden” to pay off, besides the construction of houses. DSK Developers would then utilise funds borrowed from banks to pay back the intermediary partnership firm, said the official who was privy to the report. The official also said the duo used two shell companies to siphon funds by making payments for goods and services that were never delivered. “They would give advances for supplies and construction through these two companies, but these were not rendered and the advances were not returned. Both companies had no transactions, no income and no revenue and were only used as a conduit,” the official said. Both Deepak and Hemanti Kulkarni are currently in police custody. The case is also being investigated by the Economic Offence Wing of the Pune Police and the Enforcement Directorate. The chargesheet filed by the Pune police alleged that the group had collected funds from over 33,000 investors. The ED had attached DSK Group’s properties worth Rs 904 crore in February under provisions of the Prevention of Money Laundering Act.

'On tap' licensing for small finance banks under study

Mumbai: The Reserve Bank of India (RBI) on Thursday said it was considering 'on-tap' licensing facility for small finance banks and proposed to issue the draft guidelines by the end of August. The 'on-tap' facility allows the RBI to accept applications and grant licence for banks throughout the year. The policy allows aspirants to apply for universal bank licence any time, subject to fulfilment of set conditions. So far, the RBI has issued licences to 10 small finance banks. Of this, eight have been included in the Second Schedule of the RBI Act, 1934 and are now scheduled banks. "A review of the performance of small finance banks reveals that they have achieved their priority sector targets and thus attained their mandate for furthering financial inclusion. Hence, there is a case for more players to be included to enhance access to banking facilities to small borrowers and to encourage competition," said the RBI's "Statement on developmental and regulatory policies", released after the monetary policy meeting. The RBI also said it would need more time to review performance of payments banks before considering the 'on tap' licensing facility for In its guidelines for licensing of payments banks and small finance banks in the private sector, dated November 27, 2014, the RBI had said the central bank would consider 'on tap' licensing for both small finance banks and payments banks after gaining experience in dealing with these banks.

MUST READ ITEM FOR THIS WEEK

It’s Time to Get Smart about Artificial Intelligence

By **Soren Nikolajsen***, Managing Director, Alawwal bank*

Let’s start by being honest. Like many of the big traditional industries, banking doesn’t have the greatest track record for leading innovation in recent years. We’re more famous for being disrupted by innovation than we are for leading it. Of all the technological advancements that we have seen over the past few years, I think artificial intelligence (AI), with its current capabilities, represents the single biggest opportunity many businesses, including banking, have seen in a long while. It is an opportunity we simply cannot miss if we want to stay relevant. AI, of course, has been around for decades. Many of the principles behind it remain the same, but in recent years we have seen a significant step change in its capability and scope. It has already made its way into our daily routines in ways we now take for granted. We trust it to tell us how to get to where we want to go; we trust it to tell us what to watch and what to buy. In short, it has more than proven itself to be a transformational technology.

Banks, like many big, traditional businesses, are highly complex, process-driven organisations. We have thousands of customers who give us vast quantities of data. Data that can tell us a lot about our customers’ behaviors as a group or individually. If only we had the technology to process it efficiently! That is one area in which AI is beginning to play an important role—but we are only scratching the surface of opportunities, in my opinion. If we fully embrace the technology, AI can help us work smarter and make a positive difference in how we service our customers. What customers wouldn’t want to have a bank that really treats them like individuals, not categories? To have a bank that helps them to make sure they don't run out of money at the end of the month—a bank that offers them only things they actually need, and when they actually need them?

AI can help us do all of that. AI can also help us improve our control environment. Get better at protecting our customers, and the bank, by bringing more of our data together and using it in smarter ways. As the use of technology increases, so does the risk of fraud from cyber-criminals. The smarter we get, the more creative they get. By using AI, we can look at more information and detect payment patterns in a much smarter way—and raise instant alerts if something does not look quite right. That's something that I'm proud to say Alawwal bank is already benefitting from. So why haven't banks fully embraced AI yet? Well, the first part of the problem is that a lot of business people still don't know what AI really is, let alone what it can do for their organizations. If you typed *AI* into Google right now and then searched for images, you will see endless pictures of Terminator-style robots and digitized human brains. Is this an accurate view of what AI really is today? No, it is not—but this is the image most of us have when we think about AI. Unfortunately, AI is surrounded by a toxic mix of misunderstanding, false expectations and fear—fear that it will soon put us all out of a job. To quote one Elon Musk: "AI is a threat to our existence".

Now, AI has gotten pretty sophisticated, but it has not replaced the human brain; it's not even close. It does not have a conscience; it does only limited things—things that it has been told to do by us humans. We will still have jobs, just some of them may change in nature. For me, this really sums up one of the biggest problems we have with AI—the hype surrounding it—and how it misleads us.

The *Financial Times* recently quoted a new piece of research showing that 40 percent of AI startups in Europe do not actually use AI. Companies are simply branding themselves as "AI businesses" and literally cashing in on the hype. By using these two letters, a firm is more likely to secure higher valuations and more funding. So, the hype has blinded even the smartest of investors. The problem is that the hype surrounding it detracts us from the really useful applications the technology has to offer in every-day businesses. We are often too busy thinking about the science fiction. So, one of the first things we need to do is educate ourselves about AI. If we do not put in the effort to learn about it, we will not be able to tell the difference between science fiction and science fact. And that is how opportunities are missed. We need to build a basic understanding of the technology across our organisations if we want to see our teams truly embrace it. Innovation, after all, does not start with technology—it starts with people.

It's not about turning everyone into AI experts. It is about teaching people to see through the hype and understand the basics. Then you can have your entire staff looking out for opportunities—evaluating what is good with AI, what is bad, and what's nonsense—and come up with really beneficial ideas for the organisation to get the most out of it. Also, getting any AI project off the ground takes collaboration across many teams and individuals. That's going to be a lot easier when more people understand the technology and are open to using it. At Alawwal bank, we have begun to do just that. Recently, we became the first company in the Middle East to offer basic training in artificial intelligence to our entire staff. We offered workshops along with an online course developed by the University of Helsinki and global tech firm Reaktor. For the workshops, we had about three times as many colleagues registering than we could accommodate—a really encouraging sign of the interest across the bank.

Probably not what you would expect from a 93-year-old bank in Saudi Arabia. However, I genuinely believe AI will play a big part in the future transformation of banking—and getting colleagues from across the bank involved is a good way to make that happen. Equipping staff with basic knowledge of AI means that we are better prepared as professionals, and as an organisation, for the next generation of banking. We already use AI at Alawwal bank. We use it to let our customers access our mobile app through facial recognition or fingerprint identification—and we are using AI to help us better identify fraud. Chatbots in our call center will be next. But this is really only a small part of AI's potential to improve our business. The slow adoption of AI amongst banks highlights a few core issues about how the sector tackles innovation. But these are problems we can fix—and fix them we must. Otherwise, we will quickly lose our relevance. Along with educating ourselves and making innovation everyone's business, we need to start making smarter decisions about how we adopt technologies such as AI.

If you look at a round-up of the region's banking news on a regular basis, a lot of it is innovation-led stories. All too often they fall into the same category. They tend to obsess about the technology and the banks themselves for being first to use it. This compulsion to be first really offers only a short-term buzz. Rarely do I read about the long-term, measurable benefits the proposed technology will bring for customers—or the business problems it solves. Even rarer are stories evidencing how technology has been introduced and brought a material benefit to the customers or the bank's processes.

Introducing new technology should be looked at like any other business decision. There should be a rational business case for it. But I think the hype has led many businesses into a race to be first to use technology—creating a rush to buy "off the shelf" solutions that are rarely designed for them. Staying competitive in an increasingly digital world means continuous investment in our digital capabilities to keep pace and stay relevant, so we have to spend wisely. We should not be innovating for the sake of innovation—it's about understanding our customers, about offering them services they will want and enjoy using, repeatedly. We also have to stop company hierarchy from killing ideas. Often, the larger an organisation becomes, the more it loses agility. The more bosses from whom people need to seek permission, the harder it is to get an idea off the ground. Digital innovation is happening at a faster rate than ever—so we need to be able to get new ideas to market quickly, while they are still relevant. Unnecessarily long sign-off processes will only slow us down. So, too, will seeking perfection the first time. It is much better to test early with prototypes, learn from them and evolve services based on customer reaction. That is still quite a new concept for many traditional firms. Demand for the intuitive, user-friendly services that AI offers is already very strong in the Middle East. We have a very young, tech-savvy population with high expectations that we as banks need to live up to. Millennials make up the biggest part of our society, with 60 percent of the Arab population under 30 years old. In Saudi Arabia, we also have one of the world's largest groups of users of social media—platforms that are all driven by AI. If we do not use technologies such as AI to live up to our customers' expectations today, we cannot assume that these people will be our customers tomorrow.

So, in summary: innovate where it makes good business sense; get your whole team in on the idea—and don't get carried away by the hype. We simply have to get it right when it comes to AI. If we don't, there are plenty of other actors who will.

INTERVIEW OF THE WEEK

Interview with Ms. Nahla Khaddage Bou-Diab, Deputy General Manager – COO, AM Bank

June 6, 2019

AM Bank S.A.L., headquartered in Beirut, Lebanon, has been serving customers for nearly 40 years. Guided by the philosophy that "customer satisfaction comes first", AM Bank can boast of solid exponential growth. The bank was formerly known as Al-Mawarid Bank S.A.L. Today, AM Bank easily claims its position as one of the most awarded banks in the Lebanese market. The bank attributes its success to not only its competitive products and services, which are targeted to customers' changing needs, but also to the contributions of its talented and dedicated staff. AM Bank has been the first in the Lebanese market to achieve a number of milestones, such as introducing the first revolving credit card in 1995 and mobile banking app in 2011, the first reloadable prepaid card in 2012 and a program allowing youth to access capital to finance their businesses in 2014. The bank claims that how it does business is as important as what it does, and its CAN DO strategy is paying off in spades. It identifies its guiding values of honesty, integrity and customer focus as the cornerstones of its growth.

Welcome, Ms. Bou-Diab, and thank you for answering our questions today…

The bank's mission statement reads, "We are driven by the belief that, together, WE CAN DO MORE". To what does this specifically refer the client relationship, internal teamwork within the organisation, or both? And do you have a recent example of the bank doing more together successfully?

The Can-Do motto stems from the bank's culture, a culture that believes in continuous thinking, continuous exploration of solutions on all levels. The Can-Do motto is a commitment that we will never reject ideas, requests or opportunities before we explore, assess and find solutions that will take the bank to new boundaries. This can-do motto is proven through our continuous innovations. We apply the Can-Do motto internally as we devise our processes, as we manage our employees and as we nurture our culture. We apply it externally as we connect with our clients, as we work with our suppliers and our partners. Can-Do is a way of thinking; it brings a positive philosophy into our work environment.

The bank also states that it is "continuously developing and improving our culture, services and products to ensure greater client satisfaction and loyalty". Can you name a specific product and/or service that has generated a definitive improvement in customer satisfaction in recent times?

There are multiple examples on all levels. On the product level, we have launched unique products such as the Boost Account, the syndicate card, amongst many others. On the services level, we have introduced to the market delivery services, payment breaks on loans, "save the pennies" on accounts and credit cards, and many others. All product and service innovations stem from a client need that could have been received by us as an issue. At AM Bank, issues become opportunities to innovate!

How competitive do you currently consider the Lebanese banking sector to be? Is it difficult to attract new business and customers in the current environment?

The Lebanese banking sector is very competitive. There are 142 banks serving a small population of bankable customers. It is a solid sector, constantly seeking technology innovation, and the sector has the resources to do just that. On the other hand, we are affected by global competition because of the size of the Lebanese community residing outside of Lebanon. The Lebanese expats are exposed to high levels of efficiency in global markets and expect the same from Lebanese banks.

Can you provide more details about the bank's involvement with the Financial Integrity Network (FIN)? How does the engagement with FIN provide benefit to the bank?

We believe that to ensure international standards, we must have strong international partners that keep us up-to-date on global changes at all levels. FIN is one of these partners; they are experts in mitigating global compliance risks, and they provide the bank with updates on global changes and new regulatory requirements; they help the bank stay ahead of the game in terms of compliance risk-mitigation policies and procedures, and they provide regular training to the bank's team. This is important to us, especially as we believe in maintaining a strong compliance culture across the bank and not limiting compliance strength to the compliance department.

AM Bank recently won an award at the "Arab Digital Banking Excellence Award-2018" for the Best Banking Website. What would you say is the particular unique appeal of the bank's website not commonly found within the sites of other banks?

Everything is linked; when you preach can-do, this means that the bank's team are encouraged to dream; they are encouraged to do things never done before; they are encouraged to invest their passion in what they do. All limits are removed to allow them to transcend themselves through their work. People dreamed and placed themselves in the seat of the customer; they talked to customers, and they produced a simple, clean-looking, appealing website that has enabled a nice customer experience.

You recently spoke about diversity at The AUB Byblos Bank Art Gallery. During your speech, you mentioned that diversity drives "the organisation's ability to properly perform". Can you briefly explain what you meant by this?

Learning stems from diversity! Despite the fact that learning occurs in any relationship, the fact is that we learn less from people who are identical to us. Intense learning comes from differences—different genders, different religions, different professional backgrounds. It is this diversity that will intensify learning; it is this diversity that will trigger innovation, and both these characteristics will yield through better performance on all levels.

Last year, AM Bank became the first bank in the Arab world to sign the "WUAB Charter for Gender Diversity". What does the charter signify? And what positive impact do you anticipate after having become a signatory?

The charter for gender diversity was launched by myself in my capacity as head of women empowerment for WUAB. It stems from a strong belief that leadership for today's organization requires women to be at the executive level, because they are powerful at creating healthy cultures and collaborative environments—both being critical success factors to manage today's changing global environment. The bank implemented the concept of diversity many years ago; its signature on the charter only formalises this implementation.

Are you happy with the bank's current hiring policies, especially with respect to ensuring sufficient levels of diversity within the organisation?

Very happy, because we have removed all biases from our recruiting processes and policies, and the result has been amazing! When you look at the diversity we have achieved at all levels in skills and resources, it has been astonishing.

How would you describe the everyday working culture within the bank? And what measures, if any, have you taken to ensure such a culture is cultivated and maintained on a regular basis?

A total pleasure! I can talk about the management team because I interact with them daily. There is laughter; there is love; there is harmony. There is gratitude for the culture we have, and more importantly, everyone protects it with everything they have.

Ms. Bou-Diab, it's certainly been a pleasure talking with you today. Thank you very much for your time.

INTERESTING TO KNOW THIS WEEK

Azim Premji to retire as executive chairman of Wipro, son Rishad to take over

BENGALURU: Wipro founder Azim Premji will step down in July from the company he built over five decades into one of the country's largest technology services firms and devote more of his attention to philanthropic initiatives. The 74-year-old Premji will give up his executive functions as chairman and managing director but remain on the board as director and founder chairman. Eldest son Rishad Premji, already a board member, will take over as chairman, and chief executive officer Abidali Neemuchwala will become managing director as well. The changes will take effect on July 31. "It has been a long and satisfying journey for me," said Premji, who won ET's Lifetime Achievement Award in 2013. "As I look into the future, I plan to devote more time to focus on our philanthropic activities." Premji has been one of the most generous donors among India's industrialists. In March, he pledged 34% of his Wipro shares to Azim Premji Foundation, a philanthropic initiative focussed primarily on education, taking the total commitment to the organisation to 67% of his wealth, or Rs 1.45 lakh crore. The foundation set up the Azim Premji University as a not-for-profit venture in 2010. The Premji family holds a 74% stake in the software exporter.

PREMJI TO REMAIN CHAIRMAN OF WIPRO ENTERPRISES

"Wipro was started by my father Hasham Premji. I think where I contributed was to expand the existing product range and diversification," the normally reticent Premji said in an interaction with students two years ago. "What inspired me was a mission to do better than what we were doing in the past and grow much faster than how we grew in the past." In 1966, Premji dropped out from college in Stanford at the age of 21to return to India after his father's death to take over Wipro, originally Western India Vegetable Products Ltd, which had edible oil as its main product and was based in Amalner in Maharashtra. Premji diversified the business and focussed on building a technology venture, both hardware and software. The latter would thrive as the former dwindled. The software services business, which has been seeking to recover lost ground in recent years, generated $8.5 billion in annual revenue last year. Wipro Enterprises, which houses the consumer goods, infrastructure engineering and medical devices businesses, posted revenue of $2 billion. Premji will remain chairman of Wipro Enterprises and continue to chair the board of Wipro-GE Healthcare. "We thank Azim for his vision, outstanding leadership and years of extraordinary contribution towards building Wipro and the Indian IT industry," said Ashok S Ganguly, independent director and chairman, board governance, nomination and compensation committee, Wipro Ltd. "His unflinching commitment to values makes him an exemplar of how business and ethics, can and must go together. His exceptional generosity makes him one of the greatest philanthropists of our time." As he built Wipro, Premji like his contemporary NR Narayana Murthy, who cofounded Infosys, was active in raising issues of governance and infrastructure. He also worked with the industry leaders to highlight issues concerning the software and hardware industry.

GIVING BACK TO SOCIETY

At the same time, people who have worked with Premji swear by his integrity and his passion to build a culture that focuses on giving back to society, like his first hire in the tech business. “All his life, the single mission for (Premji) was making Wipro successful. For him, Wipro was everything,” said Sridhar Mitta, founder and managing director of Next-Wealth, which promotes social entrepreneurship. “When people had criticised him on retaining 85% stake in Wipro, his answer was: I don’t want somebody coming and hampering growth.” Mitta was formerly chief technology officer at Wipro. The company also offered restricted stock units as incentives to retain employees as the IT industry grew in the country. Premji’s business acumen helped him to generate wealth that he could contribute to philanthropy. “The timing has to be right — he has high ethical values,” said Mitta. “All of us are proud of the association with him. We all became mini Premjis because of that. His impact on the industry is very high.” Premji started focussing on philanthropy in the early 2000s, looking at how technology could improve the quality of education in the country. After initial setbacks, the Azim Premji Foundation focussed on working with school teachers and administration across states to address challenges in education. Premji won a special ET Award for philanthropy in 2010 and the Azim Premji Foundation won the ET Corporate Citizen Award in 2006.

INTERNATIONAL NEWS THIS WEEK

Currencies, commerce and the importance of acceptance

In July 2018 when the Reserve Bank of India released its new Rs 100 note, Twitter exploded in hilarity at the description of its colour as ‘lavender’. This purple-blue shade has long signified femininity, or even more particularly, a kind of camp homosexuality, and this seemed an odd pick for a currency note. Some observers also linked the lavender note to all the other slightly startling colours in the RBI’s post-demonetisation designs. Combining the Rs 2000’s pink (another colour linked to gay rights, ever since Nazis used pink triangles to identify gays in concentration camps), the Rs 500’s grey-green, the Rs 200’s yellow, the Rs 50’s turquoise and the Rs 10’s brown would give a monetary rainbow which again seemed to recall the rainbow sign of the Lesbian, Gay, Bisexual and Transgender (LGBT) movement. Since these new shades appeared when the Supreme Court was considering decriminalising same sex relations between consenting adults (which duly happened), some Twitterati wondered if the RBI, or the government, was signalling secret support for LGBT issues. But India is not the only country whose currency, inadvertently, evokes the LGBT rainbow. Canada, for example, also has a set of colourful currency notes, and it has even explicitly supported LGBT issues in its currency with a special commemorative Canadian dollar coin released this year with a LGBT inspired design and the words ‘Equality’ in French and English. The coin is meant to commemorate 50 years since the partial decriminalisation of homosexuality in Canada in 1969. There have been attempts in the past to use currency notes for LGBT visibility. The Ashmolean Museum in Oxford has now put on show a few such interesting exhibits. One is a US $50 bill with the words ‘Lesbian Money’ stamped on it. Another is a rubber stamp which prints the words ‘Queer Cash’. Dr. Shailendra Bhandare, curator of South Asian and Far-Eastern coins and paper money at the Ashmolean, who is one of the organisers of the exhibit, explains that is part of a diversity initiative called Ashmolean For All, which is part of a larger trend in British museums to open out their collections and make them interesting to a more diverse audience. This attempt is part of an ‘Out In Oxford’ theme, which aims to show artefacts of LGBT significance in the collections of Oxford museums – for example, Egyptian tomb paintings which show same sex couples. But highlighting these objects this month also ties into events being held across the world to commemorate the 50th anniversary of the Stonewall Riots in June 1969 in New York city which are generally accepted as helping start the global movement for LGBT acceptance and rights. The Ashmolean exhibit divides LGBT history into three phases. First was the period when same sex love faced social sanction and LGBT people had to lead clandestine lives. As images like the Egyptian paintings suggest this may not have been the case in truly ancient times, but it took place as rigidly repressive religions came to hold greater sway. LGBT artefacts had to be kept in secret, exchanged among those who could be trusted, or perhaps discreetly displayed as a sign for those who knew. The second phase was from the 1960s, when religious repression started breaking down, at least in the West, and LGBT activists began cautiously exploring ways to be more visible. The idea was that people were less likely to be intolerant when they actually got to know LGBT people and saw them as normal as anyone else. And part of this, in the context of capitalist societies, was being seen as consumers who companies needed to treat with the same respect extended to consumers in general. “Queering money was one of the avenues used to create awareness about the financial acumen that the gay community could generate, and the market power it wielded,” explains the Ashmolean’s exhibit. Activists took to stamping regular currency bills with terms like “Lesbian Money” or “Queer Cash”. This didn’t diminish the value of the bills, but it could remind people using them that LGBT people were using them, just like anyone else. This was always a niche movement, and Dr. Bhandare explains that the Ashmolean got the $50 note in unusual circumstances: “One of our curators went to the US to give a lecture and got the note among the cash received as an honorarium!” The curator recognised this as actual example of queering money in action and, instead of using the note by buying something and passing it on, preserved it and presented it to the museum for its collection. Years later this prompted Professor Marcus Banks, the co-curator of this exhibit, to recall buying a stamp to create such queer cash at the first ‘Gay Business Show’ in London in the 1990s, and he presented this to the museum.

Presenting LGBT people as consumers in this period was tactical, aiming to rope in corporations with the promise of a newly identifiable consumer group that had plenty of disposable income (no kids) and a desire to spend it. The hope was that companies would treat LGBT consumers with respect, employ LGBT people and feature LGBT people in their ads, which would help with mainstream visibility. This took time to happen. Some sectors like hospitality and travel were quick to see the potential of the market, but more mainstream companies took time, afraid about backlash from more conservative consumers. But with companies like IKEA leading the way, more and more companies became LGBT friendly and now it has turned into something of a rainbow flood as companies compete to prove their LGBT friendly credentials. This was seen in India. In 2009 when the LGBT community first won a victory with the Delhi High Court decision decriminalising homosexuality there were only a few corporate supporters, like Absolut vodka, which is a global supporter of LGBT issues, and, remarkably, Amul, which has long had a low-key but firm commitment to progressive topical issues in its billboards with the Amul girl. But that victory was immediately appealed by homophobic opponents, and in their arguments some of the problems with the LGBT consumer approach could be seen. Some of these opponents argued in their Supreme Court appeal that the LGBT movement was a corporate conspiracy to subvert traditional values for the benefit of marketing to rich gay consumers. The absence of such consumer appeals in India was the best counter to this, but the Supreme Court still upheld the homophobes arguments, striking down the Delhi High Court decision in 2013 (Amul, very commendably, issued an ad expressing sorrow over that reprehensible verdict). In fact, LGBT activists across the world were having second thoughts about the consumer lead strategy. As the writer Nathan McDermott argued in an article in the Atlantic Monthly in 2014 entitled ‘The Myth of Gay Affluence’, the image of an affluent LGBT was both counterproductive and inaccurate. Many

LGBT people suffered significant discrimination in the workplace, which limited their incomes. McDermott pointed out that, paradoxically, increasing awareness about LGBT rights was making clear this lack of affluence. In the past LGBT people who could resist the pressure to get married, and lead their own lives, had to be fairly affluent to do so. Well-off and hence more secure LGBT people were also more likely to identify openly as such. But with fears of criminalising receding more and more people were openly identifying as LGBT and most of them were not well-off. Increasing numbers were young people, emboldened to come out to their families in teenage years and, while some found acceptance, large number did not, leading to a crisis of young LGBT people expelled from their homes and leading marginal lives. The fact that such concerns are being raised by activists exactly at the time when corporate support of LGBT issues has really gone mainstream has led to some interesting tensions in all the events being held for the 50th anniversary of Stonewall. The mega Pride march being planned for New York this month has been heavily criticised for 'selling out' to corporates, and in consequence there will be a counter, non corporate march, and similar events. There is little doubt that the corporate embrace of LGBT people can be counterproductive at times. Homophobes have been trying to pull the trick of positioning themselves as the victims – entirely ignoring the huge positions of privilege they speak from, and the considerable problems that LGBT people still face. They point to corporate support of LGBT issues as a sign of the conspiracy against them – just as they did so effectively in India. And yet, there is still value in a certain kind of corporate support. Those attempts at queering currency commemorated by the Ashmolean weren't attempts to create special LGBT currency. Stamping the notes didn't make them unusable by non-LGBT people, but just reminded them that LGBT people were using the notes too. All they had to do was accept and use the notes in the regular way. Corporates can do this too by accepting LGBT consumers as just regular consumers, and tolerance for them as the norm. This was seen this week in the response to the news that some homophobes in the USA were planning to take out a straight pride parade in counter to all the gay parades. On Twitter one user joked that this would have corporate sponsors like Axe, the deodorant brand with strong straight jock image. Almost immediately the Axe brand team responded on Twitter: "We'll be at the parade that matters and this isn't it." The brand was signalling not hope for LGBT consumers, but its knowledge that tolerance is now the norm and it's the homophobes who are the outliers. And this attitude could be seen in all the corporate messages that flooded public media after the Supreme Court's second judgment last year that finally, definitively, decriminalised homosexuality in India. From Amul to Bata, Indigo to L'Oreal the message was that this verdict was a victory not for just the LGBT community, but for all. "Shoes Don't Discriminate," said Bata, and it was a reminder that commerce, like currency, works best when it is universally accepted.

SimCorp announces new COO to strengthen executive management board

Christian Kromann

SimCorp has announced the appointment of a new Chief Operating Officer (COO), Christian Kromann, effective as of August 1st, 2019. Kromann will be overseeing all sales and marketing activities globally. Kromann has previously worked with FIS, Sungard and TIA Technology (CEO). SimCorp CEO, Klaus Holse comments: "It is a great pleasure to welcome Christian Kromann to our team. With his vast experience and insight into the market, he will be a strong asset in our pursuit of continued growth and in the transformation into an as-a-service company." Christian Kromann comments: "I am very proud to join a company and a team that continues to grow its global customer base and revenue, while also increasing profitability consistently. I look forward to working with the investment management industry once again, contributing to the success of SimCorp's customers around the world." Recently, SimCorp entered into an agreement to acquire Vienna-based data management solutions provider, AIM Holding SCA and its subsidiaries, AIM Software for a value of €60 million.

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

Murex to transform treasury activities for World Bank

Edouard Balliere, Head of Sales at Murex Americas

Paris-based Murex, a provider of trading, risk and back-office solutions to the treasury and capital markets, has been selected by World Bank with an aim to assist the latter's treasury activities. According to the supplier, Murex's platform will be used to replace and update the World Bank's existing system, streamline key front-to-back office processes and support the World Bank in its goal to adapt to the ever-growing needs of its customers. Edouard Balliere, Head of Sales at Murex Americas said, "We are honoured to have been selected by the World Bank to support their treasury activities. Having the right technology is key to future-proofing your business in a changing world." Recently, Ampega Asset Management selected Murex's open MX.3 platform in order to enhance its portfolio, order and risk management services. Established in 1986, Murex acts as a technology partner for the capital markets, working with financial institutions in over 60 countries to adapt and evolve their IT systems. MX.3 is Murex's open platform that sits at the heart of our clients' IT infrastructure. This agile foundation brings together a specialized set of business process to deliver regulatory and business-ready solutions, across asset classes, business functions and sectors.

Lending-block appoints Chainalysis as its AML Launch Partner

Steve Swain, CEO, Lendingblock

New-York-based blockchain analysis company, Chainalysis has announced that it will be partnering with Lendingblock, a securities lending platform to expand Global Compliance Footprint and for the implementation of Anti-Money Laundering Technology (AML Tech). The partnership will also provide the best practices in anticipation of global guidance from the Financial Action Task Force (FATF). Lendingblock is committed to meeting the stringent and comprehensive compliance requirements set by its external regulator, the Gibraltar Financial Services Commission and by partnering with Chainalysis, the company would be augmenting existing in-house KYC standards and enforcing due diligence processes, thus protecting its institutional client base including hedge funds, trading houses, exchanges, and market makers, while also supporting the progression of regulatory frameworks.

This partnership comes as the FATF, the inter-government body that sets global standards relating to AML and CFT, is expected to issue guidance in the coming weeks for jurisdictions that fall under its oversight, which consists of over 180 countries, to start regulating their cryptocurrency markets. Chainalysis KYT (Know Your Transaction) would be at the centre of this collaboration helping companies doing business with cryptocurrencies meet global regulatory requirements and reduce manual workflows through automated counterparty risk screening. Cryptocurrency businesses and financial institutions can filter their user bases and access real-time data, case management, and reporting features. Jonathan Levin speaking about this partnership also highlighted that by collaborating now they would be in the forefront as the regulations kick into place so that business of their clientele is not hindered in any way. "It is important to create a secure and transparent lending exchange that not only meets the needs of our regulator, but also one that our institutional clients trust," said Steve Swain, CEO, Lendingblock. "Partnering with Chainalysis helps us ensure top-of-the-line compliance standards for our clients."

Fidelity launches new wealth management platform- FMAX

Anthony Rochte

The US-based Fidelity Institutional has announced the launch of its wealth management platform, Fidelity Managed Account Xchange (FMAX). The supplier states that the new platform comprises of advisory tools, programs, services and investment products from Fidelity and other asset managers. FMAX is expected to enable advisors to create and deliver client solutions. It is to be rolled out in 2020. "There's been a clear shift in demand toward both planning-led experiences and fee-based business models, and managed accounts can help advisors deliver on both," commented Anthony Rochte, head of Fidelity Institutional's Investments and Technology Group. "Fidelity is building on our significant experience and proven success in the managed accounts space with this new offering, which should make it easier for advisors to efficiently access and manage a range of investment solutions from both Fidelity and third-party providers." According to Fidelity, FMAX aims to deliver advisory capabilities, plan a simplified workflow and utilize deep integrations from Wealth-scape, Envestnet etc. Fidelity's existing capabilities are to be made available through FMAX. Over time, the platform is expected to also offer the flexibility to support both planning-oriented and non-planning managed account users, with digital services offered through Fidelity Automated Managed Platform (AMP), Fidelity's digital advice solution co-developed with e-Money. "Investors are increasingly looking to their advisors for holistic planning, and Fidelity will help them provide that through the combined power of FMAX with industry-leading planning, managed account technology and brokerage integrations," said Gary Gallagher, head of Investment and Managed Solutions for Fidelity Institutional. "The platform will make it easier for advisors to work with a range of managed account solutions, streamlining the money management function and freeing advisors up to spend more time and energy on financial planning and other value-adds for their clients." Established in 1946, Fidelity Investment offers investment management, retirement planning, portfolio guidance, brokerage, and many other financial products.

SimCorp to acquire data management solutions provider AIM Software

Klaus Holse, CEO, SimCorp

SimCorp has entered into an agreement to acquire Vienna-based data management solutions provider, AIM Holding SCA and its subsidiaries, AIM Software for a value of €60 million. The acquisition is expected to be closed around the 1st of August, 2019.

Gayatri Raman, CEO of AIM Software, comments: "AIM and SimCorp have had a long-standing, successful partnership, working closely to serve buy-side clients globally. The AIM team is excited to continue our journey on becoming a leader in data management for the buy-side as part of SimCorp. SimCorp's global market reach, commitment to its employees, along with substantial investments in R&D, will allow us to continue to deliver innovative data management solutions to our clients." According to the supplier, the acquisition is expected to enhance SimCorp's market competitiveness, provide a strong value proposition and add new capabilities to its front-to-back offering. AIM's product GAIN would be renamed to SimCorp Gain and will be incorporated as a core component of SimCorp's data management solution. Klaus Holse, CEO of SimCorp, comments: "We are excited to welcome AIM's team to the SimCorp family and AIM's clients to our global client community. AIM's market-leading data management solution, GAIN, is a valuable addition to our portfolio, supplementing our offering in an area of strategic importance to our clients. The combination of AIM's data management capabilities and SimCorp's integrated front-to-back, multi-asset investment solution will allow us to provide asset managers and asset owners alike with an even more comprehensive end-to-end offering, further strengthening our leadership position in an ever-evolving industry." Established in 1999 in Vienna, AIM Software provides data management solutions to the buy-side community. AIM's GAIN suite of business applications allows financial institutions to aggregate, master and report on their market data.

Step Raises $22.5 Million Series A Led by Stripe for its Banking Solution

CJ MacDonald, Step Co-Founder and CEO

San-Francisco-based Step, a new-age financial service company aimed at families and teens has announced today that it has closed a $22.5 Million in Series A funding for its all-in-one banking solution led by Stripe. Founded by financial industry veterans CJ MacDonald and Alexey Kalinichenko, Step integrates certain key features and benefits of checking, savings, credit and debit cards into one easy-to-use no-fee account. The funding round was led by Stripe and saw participation from Will Smith's Dreamers fund, Nas, Wndrco, Ronnie Lott, Matt Rutler, Kevin Gould, Noah and Jonah Goodhart as well as existing investors Crosslink Capital, Collaborative Fund and Sesame Ventures. The investment comes as Step's waitlist demand exceeds 500,000 people since its offering was announced just a few months ago. The company is also in partnership with Mastercard for its Step card aimed at becoming teen's first spending card. Step's bank accounts are securely held and FDIC insured through their sponsor bank, Evolve Bank and Trust. Evolve Bank and Trust, also enables easy ATM access for Step card holders at thousands of locations with no fees. Stripe provides issuing and processing technology that will help Step empower teens to fully participate in the economy while teaching financial literacy first-hand. Step Co-Founder and CEO CJ MacDonald emphasised on the need to get Gen Z (the mid-1990s to mid-2000s as starting birth years) more equipped and educated when it comes to handling finances. "Today's young people are digitally savvy, having grown up with technology as a mainstay in their day-to-day lives. As a result, we also need to ensure that they become familiar with the unique aspects of digital payments including providing education about the various finance and payment products available," said Sherri Haymond, EVP Digital Partnerships, North America for Mastercard. "Step has taken a thoughtful approach to developing an offering for teens and families that provides that first step in educating and acclimating today's youth to help them gain confidence and awareness around their finances." Step card will also be linked to the phone of the user and hence users can make use of services such as Apple Pay and Google Pay for various shopping and money transfer activities. Step benefits include parental oversight on their children's spending as well as Deposits with interest on deposits at a current rate of 2.5% with round-up savings capabilities in an FDIC-insured account up to $250,000; access to a network of 35,000 ATMs nationwide with no hidden fees or ATM fees; controlled spending limit to help build credit along with fraud protection; and real-time budgeting tools as well as transaction and balance tracking. The funding received in this round will go towards various project accelerations, new hires and respond to the strong demand for its services by the youth of today.

RBI THIS WEEK

RBI releases Prudential Framework for Resolution of Stressed Assets

Hon'ble Supreme Court, vide its order dated April 2, 2019, had held the RBI circular dated February 12, 2018 on Resolution of Stressed Assets as *ultra vires*. In light of the same, the Statement on Framework for Resolution of Stressed Assets issued by the Governor on April 4, 2019 had clarified that the Reserve Bank of India will take necessary steps, including issuance of a revised circular, as may be necessary, for expeditious and effective resolution of stressed assets. Accordingly, the Reserve Bank has today placed on its website the prudential framework for resolution of stressed assets by banks in the wake of the judgement of the Hon'ble Supreme Court of India. The fundamental principles underlying the regulatory approach for resolution of stressed assets are as under:

i. Early recognition and reporting of default in respect of large borrowers by banks, FIs and NBFCs;
ii. Complete discretion to lenders with regard to design and implementation of resolution plans, in supersession of earlier resolution schemes (S4A, SDR, 5/25 etc.), subject to the specified timeline and independent credit evaluation;
iii. A system of disincentives in the form of additional provisioning for delay in implementation of resolution plan or initiation of insolvency proceedings;
iv. Withdrawal of asset classification dispensations on restructuring. Future upgrades to be contingent on a meaningful demonstration of satisfactory performance for a reasonable period;
v. For the purpose of restructuring, the definition of 'financial difficulty' to be aligned with the guidelines issued by the Basel Committee on Banking Supervision; and,
vi. Signing of inter-creditor agreement (ICA) by all lenders to be mandatory, which will provide for a majority decision making criteria.

Notwithstanding anything contained in this framework, wherever necessary, RBI will issue directions to banks for initiation of insolvency proceedings against borrowers for specific defaults so that the momentum towards effective resolution remains uncompromised. It is expected that the current circular will sustain the improvements in credit culture that have been ushered in by the efforts of the Government and the Reserve Bank of India so far and that it will go a long way in promoting a strong and resilient financial system in India. As articulated by the Governor in the Statement of April 4, 2019, the RBI stands committed to maintain and enhance the momentum of resolution of stressed assets and adherence to credit discipline.

Second Bi-monthly Monetary Policy Statement, 2019-20 Resolution of the Monetary Policy Committee (MPC) Reserve Bank of India

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today decided to:

- reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 5.75 per cent from 6.0 per cent with immediate effect.

Consequently, the reverse repo rate under the LAF stands adjusted to 5.50 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.0 per cent. The MPC also decided to change the stance of monetary policy from neutral to accommodative. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth. The main considerations underlying the decision are set out in the statement below.

Assessment

Global Economy

2. Global economic activity has been losing pace after a somewhat improved performance in Q1:2019, reflecting further slowdown in trade and manufacturing activity. Among advanced economies (AEs),

economic activity in the US strengthened in Q1, supported by higher government spending, increase in private investment and a lower trade deficit. However, factory activity and retail sales moderated in April. Economic activity in the Euro area has remained weak due to muted industrial activity and weak business confidence. Leading indicators point to a further slowdown in the Euro area in Q2. In the UK, GDP growth for Q1 picked up on high retail sales and government expenditure. However, the outlook is clouded by uncertainty relating to Brexit. The Japanese economy accelerated in Q1 on net exports gains and increased public investment. In April, industrial production improved, while retail sales fell.

3. Economic activity has slowed in many emerging market economies (EMEs). In Q1:2019, the Chinese economy grew at the same pace as in the previous quarter, though slightly above consensus expectations. However, incoming data on industrial production and retail sales suggest that the growth momentum may weaken in Q2. The Russian economy, which had shown some signs of recovery in Q4:2018, weakened in Q1 on muted domestic activity and trade. Economic activity in South Africa contracted in Q1 pulled down mainly by a sharp decline in manufacturing activity. Brazil's economy contracted in Q1 for the first time since 2016 and there are fears that it could return to recession.

4. Crude oil prices remained volatile, reflecting evolving demand-supply conditions underpinned by the production stance of the OPEC *plus*, rising shale output, weakening global demand and geo-political concerns. The strengthening of the US dollar had weakened gold prices; however, prices picked up since the last week of May on escalating trade tensions, reviving its demand as a safe haven asset. Inflation remains below target in several economies, though it has shown an uptick since March.

5. Financial markets have been driven by uncertainties surrounding US-China trade negotiations and Brexit. In the US, the equity market has experienced some selling pressures since early May on escalation of trade tensions with China and recently, with Mexico. Equity markets in most EMEs have lost steam due to the waning risk appetite on rising geo-political uncertainties and weakening global trade prospects. Bond yields in the US picked up in April on better GDP data for Q1, but declined in May on subdued economic data and expectations of a dovish monetary policy stance. Bond yields in Germany slipped into negative territory on weak economic data; in Japan, they remained negative on indications of sustained accommodation. In many EMEs, bond yields have been falling with central banks adopting accommodative monetary policy to boost economic growth. In currency markets, the US dollar strengthened on better than expected domestic economic data for Q1. Most EME currencies have depreciated against the US dollar.

Domestic Economy

6. Turning to the domestic economy, on May 31, 2019 the National Statistical Office (NSO) released quarterly estimates of gross domestic product (GDP) for Q4:2018-19 and provisional estimates of national income for 2018-19. GDP growth for 2018-19 has been estimated at 6.8 per cent year-on-year (y-o-y), down by 20 basis points from the second advance estimates released on February 28, pulled down by a downward revision in private final consumption expenditure (PFCE) and moderation in exports. Quarterly data show that domestic economic activity decelerated sharply to 5.8 per cent in Q4:2018-19 from 6.6 per cent in Q3 and 8.1 per cent in Q4:2017-18. Gross fixed capital formation (GFCF) growth declined sharply to 3.6 per cent, after remaining in double digits in the previous five quarters. Private consumption growth also moderated. The drag on aggregate demand from net exports increased in Q4 due to a sharper deceleration in exports relative to imports. However, the

overall slowdown in growth was cushioned by a large increase in government final consumption expenditure (GFCE).

7. On the supply side, agriculture and allied activities contracted, *albeit* marginally, in Q4:2018-19 due to a decline in *rabi* production. According to the third advance estimates, foodgrains production at 283.4 million tonnes for 2018-19 was lower by 0.6 per cent compared with the previous year mainly due to lower production of *rabi* rice, pulses and coarse cereals. However, there has been a catch-up in foodgrains production relative to earlier estimates. Foodgrains stocks at 72.6 million tonnes as on May 16, 2019 were 3.4 times the prescribed buffer norms. Growth in manufacturing activity weakened sharply to 3.1 per cent from 6.4 per cent in the previous quarter. Service sector growth, however, accelerated, supported by financial, real estate and professional services, and public administration, defence and other services. In contrast, construction activity slowed down markedly.

8. Moving beyond Q4, the India Meteorological Department (IMD) has predicted that south-west monsoon rainfall (June to September) is likely to be normal at 96 per cent of the long period average (LPA). The current weak El Niño conditions over the Pacific are likely to continue during the monsoon. However, currently prevailing neutral Indian Ocean Dipole (IOD) conditions may turn positive in the middle of the monsoon season and persist thereafter, which augur well for the rainfall outlook.

9. Growth in eight core industries decelerated sharply in April, pulled down largely by coal, crude oil, fertilisers and cement. Credit flows from banks to large industries strengthened, though they remained muted for micro, small and medium industries. Based on early results of the Reserve Bank's order books, inventory and capacity utilisation survey (OBICUS), capacity utilisation (CU) in the manufacturing sector improved to 77 per cent in Q4 from 75.9 per cent in Q3; seasonally adjusted CU, however, slipped marginally to 75.2 per cent in Q4 from 75.8 per cent in Q3. The business assessment index (BAI) of the industrial outlook survey (IOS) in Q1:2019-20 remained unchanged at its level in the previous quarter. Imports of capital goods – a key indicator of investment activity – remained anaemic in April. However, the manufacturing purchasing managers' index (PMI) edged up to 52.7 in May with strengthening of output, new orders and employment.

10. High frequency indicators suggest moderation in activity in the service sector. Sales of commercial vehicles, tractors, passenger cars, and three and two wheelers contracted in April. Railway freight traffic growth decelerated. Domestic air passenger traffic growth contracted in March, but turned around modestly in April. Two key indicators of construction activity, *viz.*, cement production and steel consumption, slowed down in April. The PMI services index moderated to 50.2 in May on subdued growth of new businesses.

11. Retail inflation, measured by y-o-y change in CPI, remained unchanged in April, at its March level of 2.9 per cent, with higher inflation in food and fuel groups being offset by lower inflation in items excluding food and fuel.

12. The April food inflation print showed an increase to 1.4 per cent from 0.7 per cent in March. Within the food group, vegetables moved out of nine months of deflation. However, three sub-groups, *viz.*, fruits, pulses and sugar, remained in deflation in April, though the extent of deflation moderated. Among other food sub-groups, inflation in prices of milk, oils and fats, spices, non-alcoholic beverages and prepared meals moderated, while inflation in meat, fish and eggs prices ticked up.

13. Inflation in the fuel and light group rose to 2.6 per cent in April from the February trough of 1.2 per cent, pulled up by prices of liquefied petroleum gas due to an increase in international prices. Inflation in subsidised kerosene also rose, reflecting the impact of the calibrated increase in its administered price. Electricity prices moved out of three months of deflation in April. Prices of rural fuel consumption items – firewood, chips and dung cake – moved into deflation.

14. CPI inflation excluding food and fuel fell sharply to 4.5 per cent in April from 5.1 per cent in March – the largest monthly decline since April 2017. The moderation in inflation was broad-based, with household goods and services, and personal care and effects sub-groups registering the largest fall in April; housing inflation was the lowest since June 2017, reflecting softening in house rents in urban areas. Inflation in clothing and footwear also touched its historical low in the new all-India CPI series. Inflation in education, health and transportation and communication moderated as well.

15. Inflation expectations of households in the May 2019 round of Reserve Bank's survey declined by 20 basis points for the three-month ahead horizon compared with the previous round, but remained unchanged for the one-year ahead horizon. However, manufacturing firms participating in the Reserve Bank's industrial outlook survey expect input cost pressures to intensify on account of higher raw material costs and salaries in Q2. Input price pressures eased in both agricultural and industrial raw materials. Nominal growth in rural wages and in organised sector staff costs remained muted.

16. Liquidity in the system turned into an average daily surplus of ₹66,000 crore (₹660 billion) in early June after remaining in deficit during April and most of May due to restrained government spending. The Reserve Bank injected liquidity of ₹70,000 crore (₹700 billion) in April and ₹33,400 crore (₹334 billion) in May on a daily net average basis under the LAF. It conducted two OMO purchase auctions in May amounting to ₹25,000 crore (₹250 billion) and a US dollar buy/sell swap auction of US$ 5 billion (₹34,874 crore) for a tenor of 3 years in April to inject durable liquidity into the system. The weighted average call money rate (WACR) – the operating target of monetary policy – remained broadly aligned with the policy repo rate: it traded above the policy repo rate (on an average) by 6 bps in April, but below the policy repo rate by 6 bps in May. The Reserve Bank has announced that it would conduct an OMO purchase auction of ₹15,000 crore (₹150 billion) on June 13, 2019.

17. Transmission of the cumulative reduction of 50 bps in the policy repo rate in February and April 2019 was 21 bps to the weighted average lending rate (WALR) on fresh rupee loans. However, the WALR on outstanding rupee loans increased by 4 bps as the past loans continue to be priced at high rates. Interest rates on longer tenor money market instruments remained broadly aligned with the overnight WACR, reflecting near full transmission of the reduction in policy rate.

18. Exports were unable to sustain the growth of 11.8 per cent observed in March 2019; they grew by 0.6 per cent in April 2019 dragged down by engineering goods, gems and jewellery, and leather products. Imports grew at a somewhat accelerated pace in April 2019 relative to the preceding month, driven by imports of petroleum (crude and products), gold and machinery. This led to a widening of the trade deficit, both sequentially and on a y-o-y basis. Provisional data suggest that net services exports in Q4:2018-19 were broadly comparable to their level a year ago which bode well for the current account balance. On the financing side, net foreign direct investment flows were stronger in Q4:2018-19 than a year ago. After a sharp recovery in March 2019, net foreign portfolio inflows were relatively modest at US$ 2.3 billion in 2019-20 in April-May. While the equity segment received net inflows during this period, the debt segment witnessed net outflows. India's foreign exchange reserves were at US$ 421.9 billion on May 31, 2019.

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

Outlook

19. In the bi-monthly monetary policy resolution of April 2019, CPI inflation was projected at 2.4 per cent for Q4:2018-19, 2.9-3.0 per cent for H1:2019-20 and 3.5-3.8 per cent for H2:2019-20, with risks broadly balanced. The headline inflation outcome in Q4 at 2.5 per cent was largely in alignment with the April policy projections.

20. The baseline inflation trajectory for 2019-20 is shaped by several factors. First, the summer pick-up in vegetable prices has been sharper than expected, though this may be accompanied by a correspondingly larger reversal during autumn and winter. More recent information also suggests a broad-based pick-up in prices in several food items. This has imparted an upward bias to the near-term trajectory of food inflation. Second, a significant weakening of domestic and external demand conditions appear to have led to a sharp broad-based decline of 60 bps in inflation excluding food and fuel in April; this has imparted a downward bias to the inflation trajectory for the rest of the year. Third, crude prices have continued to be volatile. However, its impact on CPI inflation has been muted so far due to incomplete pass-through. Fourth, near-term inflation expectations of households have continued to moderate. Taking into consideration these factors, the impact of recent policy rate cuts and expectations of a normal monsoon in 2019, the path of CPI inflation is revised to 3.0-3.1 per cent for H1:2019-20 and to 3.4-3.7 per cent for H2:2019-20, with risks broadly balanced (Chart 1).

21. Risks around the baseline inflation trajectory emanate from uncertainties relating to the monsoon, unseasonal spikes in vegetable prices, international fuel prices and their pass-through to domestic prices, geo-political tensions, financial market volatility and the fiscal scenario.

22. In the April policy, GDP growth for 2019-20 was projected at 7.2 per cent – in the range of 6.8-7.1 per cent for H1 and 7.3-7.4 per cent for H2 – with risks evenly balanced. Data for Q4:2018-19 indicate that domestic investment activity has weakened and overall demand has been weighed down partly by slowing exports. Weak global demand due to escalation in trade wars may further impact India's exports and investment activity. Further, private consumption, especially in rural areas, has weakened in recent months. However, on the positive side, political stability, high capacity utilisation, the uptick in business expectations in Q2, buoyant stock market conditions and higher financial flows to the commercial sector augur well for investment activity. Taking into consideration the above factors and the impact of recent policy rate cuts, GDP growth for 2019-20 is revised downwards from 7.2 per cent in the April policy to 7.0 per cent – in the range of 6.4-6.7 per cent for H1:2019-20 and 7.2-7.5 per cent for H2 – with risks evenly balanced.

23. The MPC notes that growth impulses have weakened significantly as reflected in a further widening of the output gap compared to the April 2019 policy. A sharp slowdown in investment activity along with a continuing moderation in private consumption growth is a matter of concern. The headline inflation trajectory remains below the target mandated to the MPC even after taking into account the expected transmission of the past two policy rate cuts. Hence, there is scope for the MPC to accommodate growth concerns by supporting efforts to boost aggregate demand, and in particular, reinvigorate private investment activity, while remaining consistent with its flexible inflation targeting mandate.

24. Against this backdrop, all members of the MPC (Dr. Chetan Ghate, Dr. Pami Dua, Dr. Ravindra H. Dholakia, Dr. Michael Debabrata Patra, Dr. Viral V. Acharya and Shri Shaktikanta Das) unanimously

decided to reduce the policy repo rate by 25 basis and change the stance of monetary policy from neutral to accommodative.

25. The minutes of the MPC's meeting will be published by June 20, 2019.

26. The next meeting of the MPC is scheduled during August 5 to 7, 2019.

Enforcement action in respect of statutory auditors of commercial banks

RBI vide its Press Release dated June 29, 2018 had put in place an enforcement action framework in respect of statutory auditors for the lapses in the statutory audit of commercial banks. In terms of the aforesaid enforcement action framework, on account of the lapses identified in a statutory audit assignment carried out by the firm, M/s S. R. Batliboi & Co. LLP, Chartered Accountants (ICAI Firm Registration Number: 301003E), it has been decided that RBI will not approve the said firm for carrying out statutory audit assignments in commercial banks for one year starting from April 1, 2019. The action taken in the matter has been communicated to the Institute of Chartered Accountants of India.

RBI releases report on Benchmarking India's Payment Systems

The Reserve Bank of India today released a report on "Benchmarking India's Payment Systems" which provides a comparative position of the payment system ecosystem in India relative to comparable payment systems and usage trends in other major countries. It may be recalled that in the First Bi-monthly Monetary Policy Statement, 2019-20 announced on April 4, 2019 [Para 12(viii)], it was stated that "Benchmarking India's Payments Systems is necessary to gauge India's progress vis-à-vis payment systems and instruments in major countries and give further impetus to the planned efforts for deepening the digitisation of payments. A report containing the findings of such an exercise will be placed on the RBI website by the end of May 2019." The Reserve Bank has undertaken an exercise of benchmarking India's Payment Systems vis-à-vis payment systems in a mix of advanced economies, Asian economies and the BRICS nations. The analysis was attempted under 41 indicators covering 21 broad areas including regulation, oversight, payment systems, payment instruments, payment infrastructure, utility payments, Government payments, customer protection and grievance redressal, securities settlement and clearing systems and cross border personal remittances. The study found that India has a strong regulatory system and robust large value and retail payment systems which have contributed to the rapid growth in the volume of transactions in these payment systems. There has been substantial growth in e-payments by Government and also in digital infrastructure in terms of mobile networks. The report, however, notes that India is required to take further efforts to bring down the volume of paper clearing and increase acceptance infrastructure to enhance digital payments. It may be mentioned that RBI's current Vision Document on Payment and Settlement Systems in India has also, inter alia, identified the above areas for receiving its focussed attention.

Reserve Bank of India imposes monetary penalty on Kotak Mahindra Bank Limited

The Reserve Bank of India (RBI) has, by an order dated June 06, 2019, imposed a monetary penalty of ₹ 20 million on Kotak Mahindra Bank Limited (the bank) for non-compliance with the directions issued to the bank by RBI in exercise of its powers under sections 27(2) and 35A of the Banking Regulation Act, 1949 (the Act) to furnish information specified therein. This penalty has been imposed in exercise of powers vested in RBI under the provisions of Section 47A(1)(c) read with Section 46(4)(i) of the Act, taking into account the default committed by the bank in complying with the aforesaid directions issued by RBI. This action is based on the deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank.

Background:

The bank was directed by RBI to furnish information about details of the shareholding held by its promoters and to submit details of the proposed course of action/plans/strategy of the bank for complying with the permitted timeline for dilution of promoter shareholding. Subsequently, the bank was directed to convey its commitment to achieve the dilution as per the timelines stipulated. However, the bank failed to comply with the said directions and a Notice (SCN) was issued to the bank advising it to show cause as to why penalty should not be imposed for non-compliance with the said directions. After considering the reply received from the bank, submissions made by the bank during the personal hearing and the documents submitted by it, RBI came to the conclusion that the bank had failed to comply with the directions issued by RBI and decided to impose monetary penalty on the bank.

FINMIN THIS WEEK

Agreement for Exchange of Information between India and Marshall Islands notified

The Agreement between the Government of the Republic of India and the Government of the Republic of the Marshall Islands for the Exchange of Information with respect to taxes (India – Marshall Islands TIEA) was signed on 18thMarch, 2016 at Majuro, the Republic of the Marshall Islands. The India-Marshall Islands TIEA has been notified in the Gazette of India (Extraordinary) on 21st May, 2019. The Agreement enables exchange of information, including banking and ownership information, between the two countries for tax purposes. It is based on international standards of tax transparency and exchange of information and enables sharing of information on request. The Agreement also provides for representatives of one country to undertake tax examinations in the other country.The Agreement will enhance mutual co-operation between India and Marshall Islands by providing an effective framework for exchange of information in tax matters which will help curb tax evasion and tax avoidance

Increase in detection and reporting of bank frauds due to Government's proactive measures

RBI data on frauds reported to it by banks has been cited in sections of the media to paint a picture of rising frauds in banks in recent years. The fact is that this data is by the year of reporting and not the year of occurrence of the fraud or sanction of loan, Letter of Undertaking etc., which in many cases is of an earlier period. Occurrence of frauds was enabled by laxity in the financial system which has been systematically dealt with through comprehensive banking reforms instituted by the Government to address underlying causes and provide for proactive checking for and detection of frauds. Key steps taken in this regard include: Government has issued instruction that all accounts exceeding Rs. 50 crore, if classified as NPAs, be examined by banks from the angle of possible fraud. In addition, Public Sector Banks (PSBs) have also been advised to seek a report on the borrower from the Central Economic Intelligence Bureau, in case an account turns NPA. Proactive action has been taken against wilful defaulters, with FIRs being registered by PSBs against 2,881 wilful defaulters. For enforcement of auditing standards and ensuring the quality of audits, Government has established National Financial Reporting Authority as an independent regulator. Fugitive Economic Offenders Act, 2018 has been enacted in order to deter economic offenders from evading the process of Indian law by remaining outside the jurisdiction of Indian courts. Pursuant to Government's advice to PSBs, they have been obtaining certified copy of passport of the promoters/directors and other authorised signatories of companies availing loan facilities of more than Rs. 50 crore, and are ensuring rotational transfer of officials/employees on sensitive posts.

Government of India, Government of Tamil Nadu and World Bank sign $287 million loan agreement for the Tamil Nadu Health System Reform Programme

The Government of India, Government of Tamil Nadu (GoTN) and the World Bank today signed a $287 million loan agreement for the Tamil Nadu Health System Reform Programme. The programme aims to improve the quality of health care, reduce the burden of non-communicable diseases (NCDs), and fill equity gaps in reproductive and child health services in Tamil Nadu. Tamil Nadu ranks third among all Indian states in the NITI Aayog Health Index which is reflected in vastly improved health outcomes. The state's maternal mortality rate has declined from 90 deaths per 100,000 live births in 2005 to 62 deaths in 2015-16 while infant mortality has declined from 30 deaths per 1000 live births to 20 in the same period. A key contribution to these achievements has been the establishment of emergency obstetric and neonatal care centres and the 108 ambulance service with previous support from the World Bank. These have ensured that no mother has to travel more than 30 minutes to access emergency obstetric and neonatal care 24 hours a day, seven days a week. Despite these impressive gains, certain challenges in health care remain, including quality of care and variations in reproductive and child health among districts. Tamil Nadu is also dealing with a growing burden of NCDs as they account for nearly 69 percent of deaths in the state. The Tamil Nadu Health System Reform Program will support the state government to:

- develop clinical protocols and guidelines;
- achieve national accreditation for primary, secondary, and tertiary-level health facilities in the public sector;
- strengthen physicians, nurses and paramedics through continuous medical education;
- strengthen the feedback loop between citizens and the state by making quality and other data accessible to the public.

Sameer Kumar Khare, Additional Secretary, Department of Economic Affairs, Ministry of Finance said that Tamil Nadu can serve as a model for how to take health system performance to the next level by investing in the public sector and offer lessons to other states. He said that it is a moment of happiness that the World Bank is helping the state in this journey. The agreement for the Project was signed by Sameer Kumar Khare, Additional Secretary, Department of Economic Affairs, Ministry of Finance, on behalf of the Government of India, Beela Rajesh, Secretary, Health and Family Welfare Department, on behalf of the Government of Tamil Nadu and Hisham Abdo, Acting Country Director, World Bank India, on behalf of the World Bank.

"The programme supports interventions to strengthen institutional and state capacity to achieve results. Good practices and innovations from Tamil Nadu are being scaled up while others from around the world are being introduced through the programme to improve management of the state public health sector, increase transparency, and strengthen accountability," said Hisham Abdo, Acting Country Director, World Bank.

The programme will promote population-based screening, treatment and follow-up for NCDs, and improve monitoring and evaluation. Patients will be equipped with knowledge and skills to self-manage their conditions. Lab services and health provider capacity will also be strengthened to address mental health. To tackle road injuries, the programme will improve in- hospital care, strengthen protocols, strengthen the 24x7 trauma care services and establish a trauma registry. Another key aim of this programme is to reduce the equity gaps in reproductive and child health. Special focus will be given to nine priority districts, which constitute the bottom quintile of the RCH indicators in the state and have a relatively large proportion of tribal populations. "This Programme focuses on results instead of inputs through a Programme-for-Results (PforR) lending instrument. This will provide a much greater focus on outputs and outcomes through better alignment of expenditures and incentives with results," said Rifat Hasan, Senior Health Specialist, World Bank India, and the Task Team Leader for the programme. The use of the PforR instrument is a first for the health sector and will offer lessons for other states.

CBDT extends due date for filing of TDS statement in Form 24Q

The Central Board of Direct Taxes (CBDT) had earlier notified amended Form 24Q for filing TDS statement by deductors of tax vide Notification No. 36/2019 dated 12th April, 2019. Subsequently, the File Validation Utility (FVU) for online filing of Form 24Q was updated by NSDL on 21st of May, 2019. With a view to redress genuine hardship of deductors in timely filing of TDS statement in Form 24Q on account of revision of its format and consequent updating of the File Validation Utility for its online filing, CBDT has ordered the following:

(i) Extended the due date of filing of TDS statement in Form 24Q for financial year 2018-19 from 31st of May, 2019 to 30th of June, 2019 and

(ii) Extended the due date for issue of TDS certificate in Form 16 for financial year 2018-19 from 15th of June, 2019 to 10th of July, 2019.

Order dated 04.06.2019 issued under section 119 of the Income-tax Act, 1961 to this effect is available on www.incometaxindia.gov.in.

Auction for Sale (Re-issue) of Government Stocks

The Government of India has announced the Sale (Re-issue) of (i) '7.32 per cent Government Stock, 2024' for a notified amount of **Rs. 5,000 crore** (nominal) through price based auction, (ii) '7.26 per cent Government Stock, 2029' for a notified amount of **Rs. 6,000 crore** (nominal) through price based auction, (iii) '7.69 per cent Government Stock, 2043' for a notified amount of **Rs. 2,000 crore** (nominal) through price based auction, and (iv) '7.72 per cent Government Stock, 2049' 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, GoI 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, Mumbai Office, Fort, Mumbai on **June 7, 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 **June 7, 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 **June 7, 2019 (Friday)** and payment by successful bidders will be on **June 10, 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 vide Circular No. RBI/2018-19/25 dated July 24, 2018 as amended from time to time.

WORLD BANK THIS WEEK

57 Carbon Pricing Initiatives Now in Place Globally, Latest World Bank Report Finds

Carbon pricing policies continue to make headway, but coverage and the price levels are still insufficient.

Singapore, June 7, 2019 – 57 carbon pricing initiatives are now implemented or scheduled for implementation globally, up from 51 in April 2018 according to the annual *State and Trends of Carbon Pricing report* launched today at the Innovate4Climate conference in Singapore.

The report, which presents the latest developments of carbon pricing around the world, finds that in the past year new carbon pricing initiatives continued to emerge, mostly at the subnational level and in the Americas. These include new carbon pricing initiatives in Canadian provinces and territories, driven by Canada's federal carbon pricing approach. At the national level, initiatives were launched in Argentina, South Africa, and Singapore; and countries exploring new or complimentary policies include Colombia, Mexico, the Netherlands, Senegal, Ukraine, and Vietnam.

However, the report concludes that both the amount of emissions covered by carbon pricing and the prices levels are still too low to meet the objectives of the Paris Agreement. About 20 percent of global greenhouse gas emissions are covered by regional, national and subnational carbon pricing initiatives and, of these, less than 5 percent are currently priced at a level consistent with achieving the temperature goals of the Paris Agreement (estimated to be between US$40–80/tCO2 by 2020 and US$50–100/tCO2 by 2030).

"*Carbon pricing remains one of the most promising measures to decarbonize our economies, by pricing harmful pollution and boosting opportunities for low-carbon growth,"* **said John Roome, Senior Director for Climate Change, World Bank.** "*But to really have transformation at scale, both coverage and price levels need to be significantly higher. There is now a wealth of experience on how to implement carbon pricing effectively that others can learn from."*

For the first time, the report also examines the critical role of implicit carbon pricing. This highlights the opportunities to design effective fiscal policies, such as fossil fuel subsidies and fuel taxes, to drive climate action. The launch event took place at Innovate4Climate, the World Bank Group's flagship annual event on climate finance, investment and markets which brings together global business, policy and finance leaders to discuss innovative climate finance solutions.

NOTE: This work is a product of the World Bank, with support from Navigant, as well as from the Carbon Pricing Leadership Coalition, the International Climate Action Partnership and the Partnership for Market Readiness.

Cabo Verde Receives World Bank Support for Fiscal Risk Reduction and to Build Resilience to Climate-Related Shocks

WASHINGTON, June 6, 2019 – The World Bank Board of Executive Directors approved on June 5 an International Development Association (IDA)* credit of $40 million to help reduce fiscal risks associated to the national airline, Cabo Verde Airline (TACV) and promote a strategic partnership in the maritime sector for improved quality of inter-island maritime transportation services in Cabo Verde. This Development Policy operation will help strengthen the financial capacity of the public energy utility, enhance the financial performance of the social housing program to reduce associated debt service risks, and improve legislation for budget and debt management.

According to **Louise Cord, World Bank Country Director for Cabo Verde**, "*the goal of this financing is to support decisive and difficult reforms aimed at repositioning the role of the state in the economy while addressing the overarching binding constraint of connectivity, as identified in the 2018 Systematic Country Diagnostic.*"

"*This is the first in a series of two operations which will support the Government of Cabo Verde in its efforts to keep public debt on a downward trend while improving the delivery of key services for connectivity and economic growth*," said **Rohan Longmore, Christine Richaud, and Kjetil Hansen, World Bank Task Team Leaders** for this operation. The first pillar of this series focuses on reducing fiscal risks from state-owned enterprises while promoting private sector-led provision of infrastructure services. The second pillar aims to strengthen accountability and effectiveness in fiscal management.

On the same day, the World Bank Board of Executive Directors also approved an IDA* credit of $5 million and an International Bank for Reconstruction and Development (IBRD)** loan of $5 million for the Cabo Verde Disaster Risk Management Development program to strengthen the institutional and legal framework to increase disaster and climate resilience. This credit will incorporate disaster and climate resilience considerations and technical standards into the management of school infrastructure and territorial planning.

* The World Bank's International Development Association (IDA), established in 1960, helps the world's poorest countries by providing grants and low to zero-interest loans for projects and programs that boost economic growth, reduce poverty, and improve poor people's lives. IDA is one of the largest sources of assistance for the world's 77 poorest countries, 39 of which are in Africa. Resources from IDA bring positive change to the 1.3 billion people who live in IDA countries. Since 1960, IDA has supported development work in 112 countries. Annual commitments have averaged about $19 billion over the last three years, with about 50 percent going to Africa.

** The International Bank for Reconstruction and Development (IBRD) lends to governments of middle-income and creditworthy low-income countries.

IMF THIS WEEK

How to Help, Not Hinder Global Growth

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 Christine Lagarde

As the G-20 finance ministers and central bank governors gather this week in Fukuoka, they can take inspiration from their host city. Known as Japan's "startup city," Fukuoka has flourished in recent decades by embracing trade, innovation, and openness. That spirit is needed more than ever to help reduce trade tensions and clear other stumbling blocks on the way back to higher and more sustainable growth. The goal must be to help, not stand in the way of global growth.

Signs of stabilization

In April, I described the global economy as being at a "delicate moment." The IMF cut its global growth forecast to 3.3 percent in 2019, largely because of temporary, country-specific factors and the tangible effects of trade tensions. At the same time, we projected a pickup in growth in the second half of this year and a further acceleration to 3.6 percent in 2020, the same growth rate as in 2018. Our expectation was that global economic activity would also benefit from the more patient pace of monetary normalization by the US Fed and the European Central Bank, and from increased fiscal stimulus in China. And indeed, these policy responses have provided vital support over the past few months, including by easing financial conditions and increasing capital flows to emerging markets. In fact, the most recent economic data indicate that global growth may be stabilizing—broadly as we had forecast. For example, while first-quarter economic activity disappointed in parts of emerging Asia and Latin America, growth was stronger than expected in the United States, the euro area, and Japan. So, there is some good news. Yet the road to stronger growth remains precarious. Why?

There are growing concerns over the impact of the current trade tensions.

Significant stumbling blocks

Let me highlight some of the significant stumbling blocks that could stand in the way of a rebound in growth: For one, there are question marks over the expected uptick in growth. Will the first-quarter momentum in advanced economies hold up, and will the previously projected improvements in some stressed economies materialize or take longer than expected? How would a no-deal Brexit affect confidence? And will the recent increase in oil prices further depress economic activity?

Another stumbling block is the underlying vulnerability of the global economy. Corporate debt levels, for example, have increased to a point where a sudden shift in financial conditions could trigger disruptive capital outflows from emerging markets. We also know that many economies are facing disappointing medium-term growth prospects, not just because of population aging and slow productivity, but also because of the corrosive effects of excessive economic inequality.

Trade tensions are looming larger

Most importantly, there are growing concerns over the impact of the current trade tensions. The risk is that the most recent US-China tariffs could further reduce investment, productivity, and growth. The just proposed US tariffs on Mexico are also of concern. Indeed, there is strong evidence that the United States, China, and the world economy are the losers from the current trade tensions (see chart).We estimate that the recently announced and envisaged US-China tariffs could subtract about 0.3 percent from global GDP in 2020, with more than half of the impact stemming from business confidence effects and negative financial market sentiment. Overall, we estimate that US-China tariffs—including those implemented last year—could reduce global GDP by 0.5 percent in 2020 (see chart, bottom panel). This amounts to a loss of about US$455 billion, larger than the size of South Africa's economy. These are self-inflicted wounds that must be avoided. How? By removing the recently implemented trade barriers and by avoiding further barriers in whatever form. The fact is that protectionist measures are not only hurting growth and jobs, but they are also making tradable consumer goods less affordable—and disproportionately harming low-income households.

The G-20 can help

So how can G-20 policymakers help to clear these stumbling blocks and support a rebound in growth?

The immediate priority is to resolve the current trade tensions, while stepping up the modernization of the international trade system. This includes building consensus across countries on how to strengthen WTO rules, especially on subsidies, intellectual property, and trade in services. The goal is to create a more open, more stable, and more transparent trade system—one that is well-equipped to serve the needs of 21st-century economies. For example, IMF research shows that liberalizing trade in services could add about US$350 billion to global GDP in the long run. These types of gains are critical if trade is to play its role in lifting living standards and creating new jobs with higher wages. As countries are fixing the trade system, they also need to work together to reform international corporate taxation, strengthen the global financial safety net, and tackle the existential threat of climate change.

Strengthening resilience and inclusiveness

At the same time, we have to recognize that high public debt and low interest rates have left many countries with limited policy room for maneuver. Managing this challenge will require carefully calibrated fiscal policies that strike the right balance between growth, debt sustainability, and social objectives. We also need to address dislocations caused by trade and technological innovation, while doing more to support those left behind. And we need further structural reforms: from lowering barriers to entry in retail and professional services, to encouraging greater participation of women in the workforce. Of course, each country will customize reforms to meet its needs—but we estimate that these types of measures, if jointly implemented, could boost G-20 GDP by **4 percent** in the long term. Importantly, structural reforms would also make growth more resilient and inclusive.

Coordinate if growth falters

Even as we strive to support a pickup in growth in this way, countries need to ask, "what if?"

When the next downturn comes, which inevitably it will, policymakers may need to use all policy tools to maximize their combined effect. This means supporting demand through decisive monetary easing and fiscal stimulus wherever possible. It also means using these supportive policies to boost the impact of structural reforms where demand is weak. Our G-20 note simulates a negative economic shock and the subsequent policy responses (see chart, top panel). Under one scenario, if all policy tools are used, G-20 output recovers significantly faster and more sustainably. Moreover, policy coordination should not stop at the border. Our downturn simulation shows that, if all countries act decisively to stimulate their own growth, the positive spillovers reinforce each other. And if everyone is working to expand growth, everyone benefits from the efforts of others to a much greater effect overall (see chart, bottom panel).

Conclusion

Of course, international cooperation is not just required in a potential downturn. It is critical right now because *all* countries continue to face a delicate moment. As the Japanese proverb goes: "*Cross a shallow river as if it were deep.*" For the G-20 nations, crossing the river means working in partnership to help, not hinder the expected pickup in growth. By harnessing the "Fukuoka spirit" of openness, policymakers can help remove the stumbling blocks and set the global economy on a more durable and inclusive path.

The Rise of Powerful Companies

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. People are concerned that the rising power of big successful companies could lower capital investment, weaken productivity, and reduce people's take-home pay. While rising corporate market power has had a fairly limited negative economic impact so far, if left unchecked, it could take a bigger toll on growth and people's income. Our Chart of the Week from the April *World Economic Outlook* analyzes nearly 1 million companies from 27 advanced and emerging market economies since the early 2000s and shows that firms' average price mark-up—the ratio of a company's product price to its production cost—has increased moderately. Across advanced economies, average mark-ups increased by 8 percent since 2000 but by less than 2 percent in those emerging economies covered by the analysis. This increase in market power has taken place in most industries, but it has been driven by a small fraction of companies. The chart shows that companies with the highest mark-ups, those in the top 10 percent, raised theirs by over 30 percent since 2000, while mark-ups have been largely flat among the remaining 90 percent of companies.

Across advanced economies, average mark-ups increased by 8 percent since 2000.

These high-mark-up companies vary in size but perform better than others. On average, they are about 50 percent more profitable, over 30 percent more productive, and use 30 percent more intangible assets, like patents or software, than others.That's because in many markets, the rising market power of the more productive and innovative companies has been helped by their superior ability to exploit proprietary intangible assets, network effects (when a product or service gains additional value as more people use it), and economies of scale (reduced costs per unit as output increases).

Keep market competition strong

Policymakers around the world need to ensure a level playing field among all companies, including new ones. This means lowering domestic barriers to entry, for example, by reducing administrative burdens on start-ups, and reducing barriers to trade and foreign direct investment, especially in services. This also means strengthening some features of competition law and policies, such as the role of market examinations, reforming corporate taxes to tax the excess returns on capital derived from market power, and ensuring that intellectual property rights encourage groundbreaking innovations more than incremental ones.

The Next Steps for International Cooperation in Fintech

Opening Remarks by Christine Lagarde, Managing Director, IMF G20 High Level Seminar "Our Future in the Digital Age" Fukuoka, Japan

As Prepared for Delivery

Distinguished guests, ladies and gentlemen — good afternoon! *Minasan*, *konnichiwa*!

I would like to thank Japan's Financial Services Agency for the opportunity to participate in this session focused on the important topic of our future in the digital age.

Opportunities and Risks in Financial Innovation

It is appropriate that we are launching our discussion in Fukuoka. Why? Because Fukuoka is Japan's start-up city. In each of the last three years more companies have been started in Fukuoka than nearly anywhere else in Japan. And here in Japan — and in Asia more broadly — is where both the peril and promise of fintech have revealed themselves. It is in Asia where innovations in digital payments and verification systems first became mainstream. But it is also in Asia where we first saw the darker side of fintech, with concerns for consumer protection and privacy concerns bubbling to the surface years ago. Asia, like the rest of the world, is facing a defining moment: How to manage the risks of fintech without suffocating innovation; how to keep up with rapid fintech innovation, while making sure consumers and investors feel secure in their investments. Technology always has, and always will, spur innovation in finance. The question is whether these innovations will benefit all, or only a select few. If handled correctly, fintech can cut the cost of utilizing financial tools and enable millions to fulfill their aspirations of building a better life. That is why I believe it is our shared responsibility to create a safe, sound, sustainable and inclusive financial system, protected from criminal abuse.

The Bali Fintech Agenda

How can the IMF help with such an enormous task? Last year, at the request of our membership, the IMF and the World Bank developed the Bali Fintech Agenda. This agenda identifies twelve priorities that countries and other international organizations should focus on in the fintech space. We then surveyed our members about these elements and 96 countries participated. Our findings will be released in a new joint IMF-World Bank paper coming later this month and this afternoon I would like to share with you a few highlights. A sneak peak, if you will.

First, countries overwhelmingly see fintech as transformative for financial inclusion. They recognize that inclusion plays a key role in promoting growth, opening access for poor and rural communities through lower costs, and facilitating women's participation in the formal economy.

Indeed, as IMF research shows, fintech has helped to close the inclusion gender gap in some countries, but not everywhere. Gaps in access to technology are one explanation, but even when access is equal, there appears to be lower usage by women. For example, in Egypt, Ethiopia, and India, men are 20 percentage points more likely than women to have their own phone; in Bangladesh, men are 22 percentage points more likely than women to have a mobile money account. Women also tend to use digital services less than men, at least in some countries, possibly due to social norms, or issues related to affordability and financial literacy. That is why we believe increasing financial literacy can play a key role in generating higher gender participation in every economy.

Second, countries are asking for greater international cooperation in fintech:

· Nearly 80% mentioned cybersecurity as their most important priority;

· Around 60% listed anti-money laundering legal and regulatory frameworks;

· Another 40% cited payment systems including across borders.

I should note that these issues are already being discussed in the various international forums in which IMF staff participates, but countries want to see swifter progress.

For example, crypto-assets have been in use for several years, but even among the countries of the G20, there is no consensus on their regulatory treatment.

The same is true about another issue discussed in our review — market concentration.

A significant disruption to the financial landscape is likely to come from the big tech firms, who will use their enormous customer bases and deep pockets to offer financial products based on big data and artificial intelligence. These developments hold out the promise of accelerating inclusion and modernizing financial markets, but raise, in addition to privacy issues, competition and market concentration concerns, both of which could lead to vulnerabilities in the financial system. China's technology industry is a prime example of this trade-off between benefits and challenges. Over the last five years, technology growth in China has been extremely successful and allowed millions of new entrants to benefit from access to financial products and the creation of high-quality jobs. But it has also led to two firms controlling more than 90% of the mobile payments market. This presents a unique systemic challenge to financial stability and efficiency, and one I hope we can touch on during the G20, and address in a cooperative and consistent fashion

Conclusion

So, let me conclude. Everyone here, and many around the world, recognize that it is critical to continue the international dialogue on fintech. It is not as easy as it seems. Integrating different national approaches to crypto-assets, non-bank fintech intermediaries, and the governance of data is crucial if we are to harness fintech's potential to promote greater financial inclusion and development. Yet at the same time, we have to find a way to preserve financial stability and integrity, protect consumers, and increase financial literacy. Here, we can draw inspiration from the famous Japanese proverb: *Walk across the stone bridge only after you have tested its strength.* We will cross the bridge, together, into the fintech future. But we will only do so once we are confident that bridge is safe and secure. Events like the one organized today are a critical part of this process. I congratulate our hosts and the Government of Japan for taking on this important initiative. The IMF is proud to be your partner. Thank you very much. *Domo Arigato!*

BASLE THIS WEEK

Estimating the effect of exchange rate changes on total exports

by Thierry Mayer and Walter Steingress

Paper produced as part of the BIS Consultative Council for the Americas Research Network project "Exchange rates: key drivers and effects on inflation and trade"

Summary

Focus

Reduced form models that explain total exports with real effective exchange rates (REERs) are widely used in applied policy work, but their analytical structures are only loosely based on international trade theory. Incorrect aggregation of theory-consistent bilateral trade equations implies that estimations performed on aggregate data lead to bias in the underlying elasticities. Models calibrated with these elasticities will have predictions at odds with the implication of their bilateral counterparts.

Contribution

This paper shows that the standard REER approach constitutes an approximation, which holds only for small changes, and causes an aggregation bias. We propose a new alternative regression specification that produces unbiased estimates. In our specification, aggregate exports are a function of the real exchange rate (RER) and foreign demand deflated by the destination-specific price index all denominated in an international currency as postulated by the dominant currency paradigm. If prices are set in the producer or the local currency, the estimation of the aggregate elasticities without bias is only possible if exchange rate pass-through is complete. To reveal the importance of theory-

consistent aggregation for parameter inference, we resort to theoretical model simulations and quantify the magnitude of the aggregation bias in standard REER regressions.

Findings

Our simulation results show that aggregation bias in standard REER regressions is substantial (around 10 percent) and increases with measurement errors. The fact that many macroeconomic models are calibrated with these elasticities has important policy implications. The predictions of these models exaggerate the response of exports and, by extension, output following an exchange rate shock. Calibrating these models with elasticities estimated from our new estimation equation with variables denominated in the dominant international currency (ie, US dollar) improves the model's fit and results in predictions consistent with microeconomic behavior in bilateral trade equations.

Abstract

This paper shows that real effective exchange rate (REER) regressions, the standard approach for estimating the response of aggregate exports to exchange rate changes, imply biased estimates of the underlying elasticities. We provide a new aggregate regression specification that is consistent with bilateral trade flows micro-founded by the gravity equation. This theory-consistent aggregation leads to unbiased estimates when prices are set in an international currency as postulated by the dominant currency paradigm. We use Monte-Carlo simulations to compare elasticity estimates based on this new "ideal-REER" regression against typical regression specifications found in the REER literature. The results show that the biases are small (around 1 percent) for the exchange rate and large (around 10 percent) for the demand elasticity. We find empirical support for this prediction from annual trade flow data. The difference between elasticities estimated on the bilateral and the aggregate levels reduce significantly when applying an ideal-REER regression rather than a standard REER approach.

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